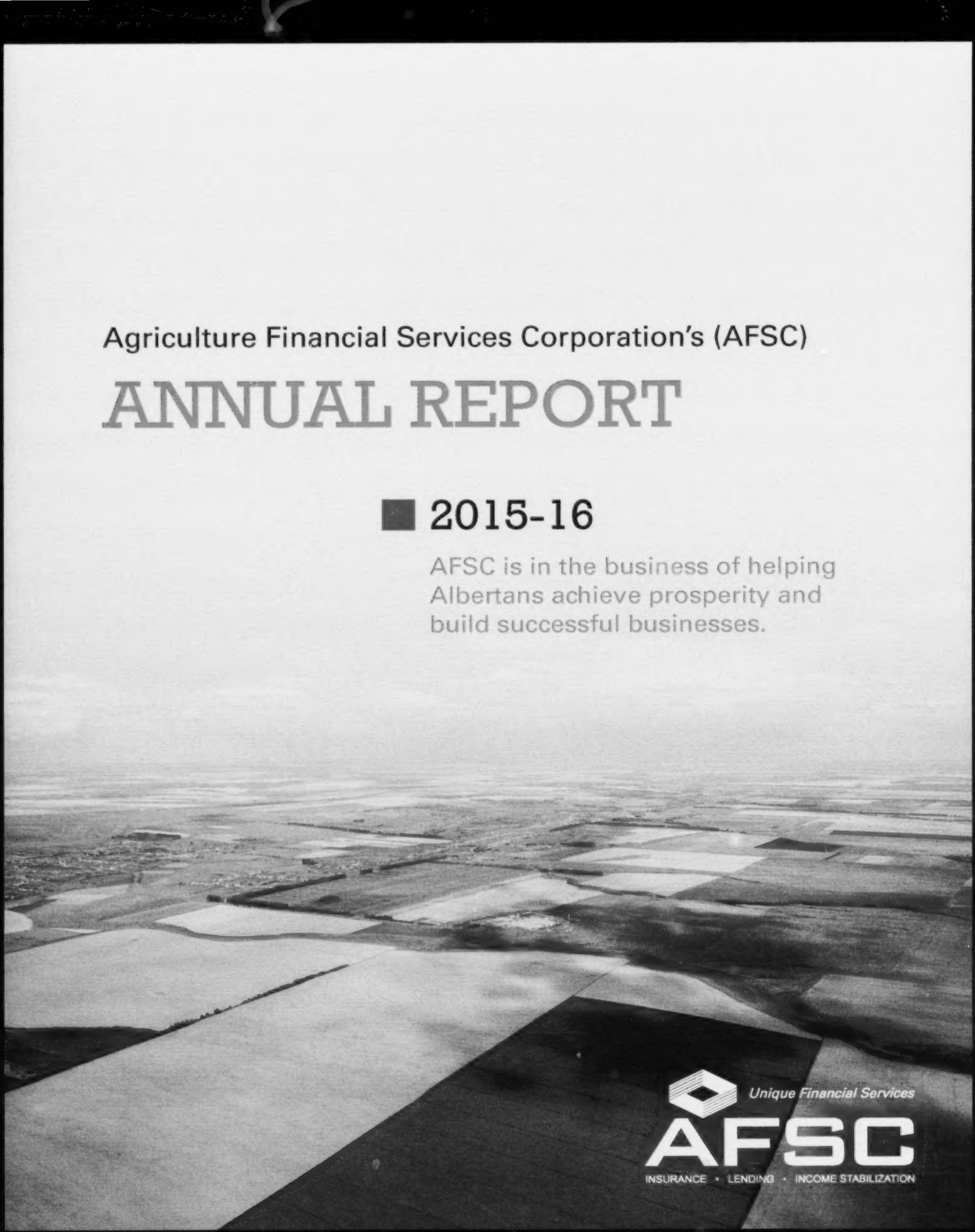
Agriculture Financial Services Corporation's (AFSC)

ANNUAL REPORT

2015-16

AFSC is in the business of helping Albertans achieve prosperity and build successful businesses.



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LETTER OF TRANSMITTAL

June 10, 2016

The Honourable Oneil Carlier
Minister of Agriculture and Forestry
228 Legislature Building
10800 97 Avenue
Edmonton, Alberta T5K 2B6

Dear Minister Carlier:

On behalf of the Board of Directors, we are pleased to submit the twenty-first annual report of the Agriculture Financial Services Corporation (AFSC).

As required by Section 15 of the *Agriculture Financial Services Act* (RSA 2000, c.A-12), the report contains a summary of the transactions and affairs of the Corporation, its revenues and expenditures for the fiscal year ended March 31, 2016.

The report also contains audited financial statements, comprised of the statement of financial position, statement of operations, statement of cash flows and notes to the financial statements.

Yours truly,

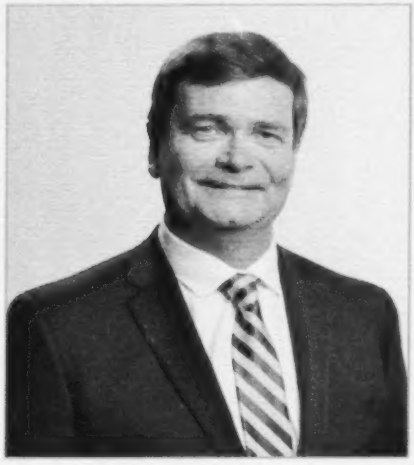
George Groeneveld
Chairman

Brad Klak
President and Managing Director

ALBERTA
AGRICULTURE AND FORESTRY

Honourable Oneil Carlier
MLA, Whitecourt-Ste. Anne

MINISTER OF AGRICULTURE AND FORESTRY MESSAGE



Rural Alberta is a key economic driver in the success of the province, and Albertans need access to the right resources to achieve success and prosperity. Agricultural producers, in particular, need stability as they face challenges from the weather, volatile commodity prices and uncertainty in markets.

For almost eight decades, producers have found that stability through Agriculture Financial Services Corporation (AFSC). As a provincial Crown corporation, AFSC provides unique financial services to agricultural producers, agribusinesses and commercial operations.

The Government of Alberta knows how important it is for agricultural producers and entrepreneurs to secure the insurance coverage and loan capital from AFSC that brings peace of mind and turns dreams ideas into thriving operations.

This was made even more evident following the dry conditions that Alberta experienced in the summer of 2015. Producers relied on the business risk management programs offered under the Growing Forward 2 agreement to bring relief during an incredibly stressful time.

I grew up on a farm and I understand the stress that dry conditions bring. That's why I am proud that our Crown corporation was able to offer producers this support through the agriculture and income stabilization programming delivered by AFSC.

While the province still faces challenges due to the current economic situation, I know that producers that enroll in the programs offered by AFSC can have some peace of mind that their operations and businesses will be able to continue to weather the storms that may come.

Farming is a pillar of our economy and our culture. The success of our farmers and our rural communities is essential to Alberta's success, and our government is strongly committed to helping farmers and our communities.

Through existing AFSC programs and services, a lot of work is being done to help farmers deal with challenging circumstances.

On behalf of the Government of Alberta, I want to recognize the hard work of AFSC in supporting Alberta's agriculture industry. Please accept my congratulations on another successful year.

CHAIRMAN'S MESSAGE

Rural Alberta is a key economic driver in Alberta's success, offering opportunities for economic development and diversification. Like other business owners who take risks, agricultural producers and rural entrepreneurs need access to capital on their way to achieving prosperity. The province's agriculture and food sectors have helped shape its history, grow thriving communities and contribute to Alberta's bright future.

Unique safety nets and loan programs imperative to the continued growth and diversification of Alberta - that's where Agriculture Financial Services Corporation (AFSC) comes in. For almost eight decades, AFSC has been woven into the fabric of rural Alberta as a provider of stable and reliable support to producers and business owners.

This past year clearly illustrated how important AFSC's services are to Alberta's agricultur al sector. On top of the driest growing season that the sector had experienced in years, agricultural producers dealt with damaging hailstorms, untimely rain, and a volatile livestock market. AFSC helped producers through 2015-16 by administering and enhancing its suite of risk management programs, providing sound financial advice, and above all, ensuring clients are put first. Indeed, this past year further exemplifies why AFSC is a recognized leader in agricultural insurance.

In addition to the challenges producers faced in the agriculture industry, Alberta experienced a significant economic downturn as a result of the fall in commodity prices. Agricultural commodity prices were not spared from the overall depreciation; however, the potential impact to producers was reduced by the depreciation in the Canadian dollar. Overall, 2015-16 was a challenging year for producers on many fronts.

My colleagues on the Board of Directors and I are proud to be part of the AFSC team. Every day we get to see the passion, dedication and commitment that staff has for helping clients deal with today's challenges, plan for the long-term success and develop their operations and businesses.

The 2015-16 Annual Report highlights AFSC's many accomplishments and the challenges we overcame this past year. We are proud of what we have achieved and look forward to the year ahead.

George Groeneveld
Chairman

OVERVIEW OF AFSC

Rural Alberta is a key economic driver in the success of the province, and Albertans need access to the proper resources to achieve their own success and prosperity. Producers need stability as they gamble with weather, volatile commodity prices and uncertainty in markets.

For almost eight decades, Agriculture Financial Services Corporation (AFSC) has served as a Crown corporation that supports and contributes to the diversification of Alberta's economy. It is a provider of insurance products to agricultural producers and a source of lending capital to aspiring entrepreneurs. Producers, agri-businesses and commercial operations have come to know AFSC as a trusted source of unique financial services.

Income Stabilization Programs
Income stabilization is a core focus for AFSC, Alberta's delivery agent for AgriStability.

Insurance Products
AFSC offers a range of insurance programs that include:

- Production insurance for annual crops, hay and honey;
- Area-based insurance programs for silage and greenfeed, corn heat units, moisture deficiency and satellite yield;
- Cattle and hog price insurance programs;
- Straight hail; and
- Bee-overwintering.

Lending Products and Services
AFSC offers loans for farms, commercial operations, agri-businesses and value-added enterprises. It also offers loan guarantees and capital sourcing services.

With 46 offices located across the province, AFSC works closely with producers, agribusinesses and commercial entities to support and advance agricultural development, to create new opportunities for businesses and to help enhance the quality of life for rural Albertans.

AFSC is seen as one of the best places to work in Canada. The Corporation has held the title of a Top Employer in Alberta for the past seven years, and continues to rank among Canada's Top 100 Employers for seven consecutive years.

AFSC CORPORATE GOVERNANCE

AFSC operates under the authority of the *Agriculture Financial Services Act* and the Agriculture Financial Services Regulation as a provincial Crown corporation. AFSC serves in a public policy role for the Government of Alberta. The Board of Directors provides leadership and direction to the Corporation, overseeing management and performance.

Composition of the Board of Directors

As of March 31, 2016, the Board of Directors consisted of six directors. There are five independent directors and the president and managing director. The Minister of Agriculture and Forestry appoints all members to the Board of Directors. The directors have a variety of skills and experience as entrepreneurs, primary agricultural producers and agribusiness owners/operators.

- George Groeneveld, Chair
- Patrick Bieleny
- Dean Gallimore
- Ian Reynolds
- Harold Schmaltz
- Brad Klak
  (President and Managing Director)

Board Committee Membership and Responsibilities (as of March 31, 2016)

The Board of Directors has the flexibility to appoint members to committees, and there are three committees in place. Each committee has specific reporting requirements and operates under formal charters, which are updated annually. Board and committee responsibilities include strategic management, enterprise risk management, corporate governance and stewardship, communication with stakeholders, integrity and ethical conduct, and fiscal responsibilities and financial reporting.

Governance Committee

- Patrick Bieleny, Chair
- Dean Gallimore
- George Groeneveld
- Brad Klak (President and Managing Director)
- Harold Schmaltz

Audit Committee

- Dean Gallimore, Chair
- Patrick Bieleny
- Ian Reynolds
- Harold Schmaltz

Risk Committee

- Harold Schmaltz, Chair
- Patrick Bieleny
- Dean Gallimore
- George Groeneveld
- Brad Klak
  (President and Managing Director)
- Ian Reynolds

AFSC Executive Leadership Team

- Brad Klak, President and Managing Director
- Merle Jacobson, Chief Operating Officer
- Darryl Kay, Chief Financial Officer
- Wayne McDonald, Vice-President, Innovation and Product Development
- Cathy Housdorff, Chief Communications and Marketing Officer
- JJ Campbell, Chief Information Officer
- Karla Kochan, Senior Manager, Human Resources

NATURE OF OPERATIONS

AFSC is in the business of helping rural Albertans achieve prosperity and build successful enterprises. By providing strategic risk management and income stabilization programs for farm clients and forward-thinking lending programs for both urban and rural entrepreneurs, AFSC supplies Alberta businesses with the valuable tools they need to thrive.

OVERVIEW

Economic Climate

Due to shifts in international demand, Alberta's commodity-based economy faced headwinds during the past year. An economic slowdown in China caused weakened international demand for all commodities, an effect which reverberated through the Albertan economy. On April 1, 2015, the price of West Texas Intermediate was $50.12 USD/BBL, and by March 31, 2016 the price was $36.94 USD/BBL. The decline in oil prices created a provincial recession that is expected to continue over the next year.

The fall in commodity prices and resulting economic slowdown in Alberta also caused a short Canadian recession. The economic shock prompted the Bank of Canada to lower the key lending rate, resulting in monetary policy divergence between Canada and the United States (US). The combined factors of weak international demand for commodities and a divergent monetary policy with the US caused the loonie to sink to a low of 69 cents relative to the US dollar.

Agricultural commodity prices, which had already experienced downward price pressure due to multiple previous years of good growing conditions and international excess supply, were not spared from overall depreciation in international commodity prices. Both grain and livestock prices fell from the record highs of the past few years.

The depreciation of the Canadian dollar reduced the potential impact to Alberta producers relative to international price declines. With low interest rates, momentum in land prices, and generally strong commodity prices, agricultural land prices continued to appreciate. On average, the province's agricultural land prices grew by 11.6 per cent over the year.

Annual Crop Conditions

Alberta experienced a challenging crop year in 2015. While conditions started positively with an early snow melt, which allowed producers to get a head start on seeding across the province, the lack of rain during the early stages of the growing season created significant issues. In early May, 70 per cent of surface soil moisture conditions were rated good to excellent. This number plummeted to 21 per cent by the end of June, a significant change from 2014 when surface moisture was rated at 78 per cent. By mid-June, crop-growing conditions rated at 41 per cent good to excellent; however, that figure declined to 30 per cent by the end of the month, the lowest recorded since 2009. In July, most areas began to experience normal rainfall accumulations, which in turn improved crop conditions throughout most of the province.

Harvest began in August, but was impacted in the northern areas of the province by the first frost on August 21-22. By early September, harvest progress was at 21 per cent, which was approximately one week ahead of both the long-term average and the 13 per cent recorded at the same time in 2014. Unfortunately, wet weather during the month slowed down or completely halted harvesting operations across the province. The wet conditions did help provincial soil moisture conditions, improving those rated good to excellent from 21 per cent to 59 per cent by the end of September.

Crops were impacted by another killing frost (reported on September 21), which impacted 60 per cent of the province. Harvest was 87 per cent complete by mid-October as weather conditions improved, and by early November, it was 99 per cent complete.

By January, below-average precipitation and above-average temperatures combined to create a thin snow pack and dryness throughout Alberta, especially in the north. Above-average temperatures, notably around Red Deer and Calgary, contributed to the lack of snow and pervasive dryness in February. March brought similar weather patterns, which resulted in little to no snow in Alberta south of Red Deer; however, the north did report normal or above-average precipitation during this time. Despite the variety of moisture accumulation throughout Alberta, 50 to 70 millimeters of snow water had most regions reporting normal or above-average moisture at the end of March, except for north of Peace River, which continues to be Alberta's driest area.

Perennial Crop Conditions

Like annual crops, perennial crops were impacted by the lack of moisture throughout the province. Hay and pasture crops were slow to start in early spring due to dry conditions and cold evening temperatures. In June, grasses and legumes stopped growing and began to turn brown. First-cut hay harvest was also impacted at this time due to a lack of plant growth.

By the end of the month, first-cut haying was underway in all regions except the north. When it was almost complete by mid-August, dryland yields were significantly lower than the previous year. Late summer and fall moisture helped improve conditions in most of the province. Despite this, only 29 per cent of pasture lands were rated good to excellent, compared to 64 per cent at the same time last year. The rains that delayed crop harvest benefited the hay and pasture fields, giving them a chance to recover from the dry conditions.

Livestock

Cattle markets in Alberta over the past year are best described as volatile. After witnessing record high prices over the past few years, beef markets experienced an aggressive correction that challenged the profitability of background and feedlot operations.

The optimism that was present in cattle markets at the beginning of the year quickly eroded as prices fell. After reaching a high in May 2015 of $192.79/hundredweight, slaughter cattle prices fell to a low of $144.98/hundredweight in December 2015. Calf prices followed a similar path, falling from a May 2015 high of $255.69/hundredweight to $199.55/hundredweight in March 2016.

Alberta continued to lead the country in herd size with 4.9 million head; however the province's beef herd remained practically unchanged, growing by only 0.3 per cent. The combination of last summer's drought conditions with the volatile cattle market may have halted producer expansion plans.

Hog markets were also volatile, though prices did manage to appreciate over the fiscal year from $68.52/hundredweight in March 2015 to $74.01/hundredweight in March 2016. The province's year-over-year hog inventory numbers increased by 2.4 per cent as producers responded to strong slaughter prices, robust consumer demand and relatively low feed costs.

The livestock sector did receive good trade news in December when the American Mandatory Country of Origin Labeling rules were repealed by the U.S. Congress after lengthy trade disputes at the World Trade Organization.

ASSISTANCE FOR ALBERTA'S AGRICULTURE SECTOR

AFSC supported Alberta producers, who dealt with varied conditions in 2015-16, by offering a broad range of products and services.

Growing Forward 2

The Growing Forward 2 (GF2) Framework Agreement is between the federal, provincial and territorial governments, including Alberta. GF2 outlines the direction of the following national programs: AgriInsurance, AgriStability, AgriInvest, AgriRecovery and the Wildlife Damage Compensation Program.

AFSC is responsible for all portions of the multilateral GF2 Agreement that govern agriculture risk management in Alberta. The Government of Alberta's Ministry of Agriculture and Forestry is responsible for the bilateral portions of the agreement, which address the development of the agriculture industry.

AGRISTABILITY

Producers can experience significant margin declines due to any number of circumstances, such as production shortfalls, falling commodity prices, and/or rising input costs.

The AgriStability program provides compensation and support for participating producers whose whole farm operation experiences a margin decline. AgriStability is funded in accordance with the GF2 Framework Agreement, through which the Government of Canada covers 60 per cent of AgriStability claim payments and administrative costs; the Government of Alberta funds the remaining 40 per cent.

Eligible participants receive compensation when their program margin, in a fiscal year, declines by more than 30 per cent below their support level. The support level is based on either the average of three production margins selected from the previous five years or the average of the corresponding allowable expenses, whichever is less.

Production margins are derived from allowable income less allowable expenses, adjusted for changes in inventories, accounts receivable, accounts payable and purchased inputs. The allowable expenses used to calculate the support level is also adjusted for accounts payable and purchased inputs.

Under the program, allowable income includes the proceeds from agricultural commodity sales and the proceeds from production insurance. Allowable expenses include commodity purchases, along with direct input costs incurred in the farming operation.

Should farming operations undergo a structural change such as a change in ownership, operation size or farming practices, the participant's production margins during the reference period will be adjusted to make their support level comparable to the current program year margin.

To participate, eligible applicants must report farming income or losses in Canada for income tax purposes. They must also have engaged in farming activity for a minimum of six continuous months and completed a production cycle. Enrollment is required by April 30 of the program year, and participants must remit an enrollment fee.

2015-16 Year in Review

As of March 31, 2016, 12,479 claims were processed and six per cent of participants received payments for the 2014 claim year. This is five per cent lower than the total amount of claims paid in the 2013 year.

AgriStability margins remained stable throughout the 2014 program year based on generally strong commodity prices, which continued to trend slightly lower in the 2015 program year. As of March 31, 2016, 92 per cent of 2014 program year claims were processed for a total of $24.7 million in benefits paid to participants; an additional estimate of $9.5 million will be paid on the remaining claims. Early forecasts for 2015 claim payments are projected to be $104.7 million based on dry conditions and the downward trend of cattle prices.

The average support level for producers increased from $194,997 in 2013 to $217,836 in 2014. This is a result of five years of stable commodity prices.

While program participation is declining in terms of the number of applications received, the decrease is not as prevalent when considering the percentage of farm cash receipts covered by AgriStability. As of March 31, 2016, producers who participated in the 2014 AgriStability program year represented 64 per cent of Alberta's farm cash receipts, which is down from 75 per cent in 2013. The number of requests to discontinue participating in 2014 was half of those received in 2013.

Claim year	Number of claims processed	Support level $,000	Average support level	Number of claims with payment	Total payments $,000	Average payment $
2014	12,479*	2,189,465	217,836	748	24,705	33,028
2013	16,493	2,486,401	194,997	1,798	65,435	36,393

* 12,479 claims processed out of 13,625 total AgriStability claims as of March 31, 2016.

• Claims are processed with a one year lag.

AGRIINVEST

AgriInvest is a matching deposit-based program for producers who face margin declines. The program is administered by the federal government, and AFSC assists as necessary. AgriInvest funds, including the government contribution, can be withdrawn at any time with no pre-existing withdrawal requirements.

The program is simple, responsive, predictable, and bankable, allowing participants to easily predict government contributions to producer-managed accounts each year. Under the GF2 Program Guidelines, federal and provincial governments will match each producer's contributions up to one per cent of their allowable net sales (ANS), subject to eligibility, to a maximum of $15,000 per year. They can carry a maximum account balance of 400 per cent of the three-year ANS average.

AgriInvest accounts are opened at a participating financial institution of a producer's choice. Eligible producers have a deadline of 90 days from the date of notification to make a deposit in AgriInvest accounts. The matching government contributions and administrative costs are shared between the federal (60 per cent) and provincial governments (40 per cent).

2015-16 Year in Review

As of March 31, 2016, 21,007 Alberta producers deposited $53.6 million in AgriInvest accounts. This brings the total value of 25,868 account balances to $549 million, up from the previous year's total of $517 million. The average account balance is $21,230.

Claim Year	Number of producers eligible	Total value of maximum matchable deposits $,000	Number of producers depositing	Total value of contributions by producers $,000	Total value of contributions by governments $,000
2014	28,681	69,009	21,007	53,628	53,628
2013	28,498	70,025	21,996	61,916	61,916

• Determined on a one year lag.

INSURANCE

Producers constantly face the uncertainty of weather, commodity price fluctuations and global politics. That is why most consider relevant and well-designed business risk management tools to be vital to the sustainability of their operations. AFSC is proud to be recognized as a national leader in agricultural insurance, offering some of the most comprehensive insurance programs for crops and livestock in Canada.

Through the Growing Forward 2 (GF2) Framework Agreement, AFSC provides AgriInsurance coverage, which gives producers protection against losses caused by designated natural perils on annual and perennial crops. AFSC also provides made-in-Alberta programs that are exclusive to Alberta agricultural producers, which expand available insurance coverage beyond what AgriInsurance delivers.

Producer premiums are cost-shared between participating producers (40 per cent), the federal (36 per cent) and provincial governments (24 per cent) according to a specific formula within the multilateral GF2 Framework Agreement. However, this ratio can vary because premiums for some insurance programs and endorsements are fully funded by producers, the Government of Alberta, or cost-shared in different arrangements between producers and governments. The 2015-16 premium ratio for producers, the Government of Canada and the Government of Alberta was 40:28:32, respectively.

In total, AFSC's insurance products provided $5.1 billion (compared to $5.5 billion in 2014-15) in coverage to clients for $670 million (compared to $662 million in 2014-15) of premium in 2015-16. The decrease is mainly due to a drop in the Western Livestock Price Insurance Program (WLPIP) coverage; $1.2 billion of coverage was provided in 2014-15, while just $465 million was issued in 2015-16. AFSC's crop insurance coverage increased by $356 million over last year.

New Insurance Products for the 2015 Crop Year

New Crop Insurance Initiative

The New Crop Insurance Initiative (NCII) is an innovative insurance concept available to clients who produce unique and non-traditional crops that are not currently covered by traditional multi-peril coverage insurance (MPCI). This program addresses an existing gap in MPCI by providing producers with a base level of insurance protection and access to the Hail Endorsement.

In 2015, there were 26 clients who insured 4,037 acres of crop through the NCII. Of these clients, 11 experienced losses. They received $92,240 in indemnities and had $1.5 million in coverage.

Hemp Grain Insurance

As a result of consultation with processors and Alberta growers, AFSC created an irrigated Hemp Grain Insurance product for the 2015 crop year. AFSC worked extensively with industry to obtain information that guided program design, which include agronomic, risk profile and market components.

For 2015, there were 41 clients who insured 10,337 acres for $8.4 million in coverage. AFSC paid out $69,553 in losses.

Production-Based AgriInsurance Products

Production-based insurance is available for most crops grown in Alberta. It includes cereals, oilseeds, pulses, potatoes, sugar beets, fresh vegetables, forage seed crops, pedigreed alfalfa, creeping red fescue and pedigree timothy, processing vegetables, honey, hay and export timothy hay crops, as well as crops grown for silage, swath grazing and greenfeed.

Premium rates vary according to crop type, risk area and selected coverage level. Producers can choose coverage levels of 50, 60, 70 or 80 per cent (90 per cent for sugar beets) based on their individual, long-term average yield for each crop.

Claims are triggered when production falls below the crop's insured coverage amount and loss is caused by insured natural perils. These perils include drought, snow, excess moisture, insect infestations, fire caused by lightning, hail, wind, plant disease, frost and wildlife damage.

The following benefits are included with most production-based insurance products:

- Variable Price Benefit (VPB) pays when there is a production shortfall and the fall market price increases by 10 per cent or more compared to the spring insurance price. For indemnity calculations, the fall market price is subject to a maximum increase of 50 per cent above the spring insurance price. The VPB is not available with Export Timothy Hay Insurance.
  In 2015, a number of crops triggered the VPB, including oats, mixed grain, rye and triticale. The major increases in the fall prices were in corn (32.6 per cent), lentils (45 per cent) and desi chickpeas (which capped out at 50 per cent).
  Barley crops also activated the VPB. This also had a significant impact on anyone who selected the silage greenfeed with barley proxy option. Perennial insurance clients were affected as well, as barley is used as a proxy for hay prices.
- Reseeding benefit pays for reseeded acres when a crop fails to establish if approved by AFSC prior to reseeding.
- Unseeded acreage benefit may apply when land is too wet to seed in the spring.
- Unharvested acreage benefit may apply if the producer is unable to harvest crops due to the early onset of winter.

Area-Based AgriInsurance Products

Area-based insurance products offer limited peril coverage. Losses are triggered by events that occur in a specific geographic area. These events can include less-than-normal rainfall, spring soil moisture or heat. Area-based insurance may not directly reflect conditions that the actual insured crop experiences.

Insurance products that provide area-based coverage are Silage Greenfeed Insurance (including crops grown for silage, swath grazing and greenfeed), Corn Heat Unit Insurance, Satellite Yield Insurance, Moisture Deficiency Insurance for pastures and the Moisture Deficiency Endorsement for hay.

Annual Crop

Annual Crop Production Insurance provides a production guarantee based on a calculated individual coverage for each client. Producers also have the option to purchase the Hail Endorsement and Spring Price Endorsement with their crop insurance policies for additional coverage on most crops.

2015-16 Annual Crop Inspections

During the year, many clients put their annual crops to another use as a result of the dry conditions in some areas of the province. By the end of the year 2,641 crop pre-harvest claims were initiated; this compares to 1,684 pre-harvest claims in the 2014 crop year.

This year there were 14.7 million acres insured under AFSC's annual programs (77.8 per cent of the Alberta acres) compared to last year's 14.5 million acres (76.7 per cent provincially). In 2015, 43.4 per cent of clients received $204.3 million in payments, which generated a loss-to-premium ratio of 55.4 per cent compared to last year that paid out $109.3 million to 36.3 per cent of clients (a 30.0 per cent loss-to-premium).

The insurable value of major crops declined 24 per cent from spring 2013 to spring 2014. These prices remained fairly consistent over the 2015 crop year, their market value declining just four per cent by the fall.

Crop Year	Contracts	Acres ,000	Premium $,000	Liability $,000	Contracts with indemnity	Indemnity $,000	Loss/ premium %
2015	11,871	14,731	368,861	3,913,877	5,149	204,289	55.4
2014	12,087	14,538	364,325	3,430,349	4,390	109,257	30.0

- AgriInsurance products for annual crops include: crop, silage greenfeed, corn heat unit, processing vegetables, New Crop Insurance Initiative (NCII), honey and bee overwintering insurance.
- Note: 2011 census shows 18,945,428 Alberta acres.

Perennial Crops

Perennial Crop Production Insurance provides a production guarantee for hay crops and area-based coverage for pastures. Producers can also choose to purchase the area-based Moisture Deficiency Endorsement with Hay Insurance.

2015-16 Perennial Crop Inspections

In 2015 there were 5,163 contracts covering 6.7 million acres or 24.8 per cent of the Alberta acres (6.8 million acres or 25.2 per cent in 2014). Out of the 5,163 contracts 87.4 per cent of these clients received $60.8 million in indemnities, compared to the $9.3 million paid out to 40.3 per cent of Perennial Insurance clients last year. This resulted in a 352.6 per cent loss-to-premium ratio in 2015 (compared to 56.8 per cent in 2014).

Crop Year	Contracts	Acres ,000	Premium $,000	Liability $,000	Contracts with indemnity	Indemnity $,000	Loss/ premium %
2015	5,163	6,692	17,249	128,973	4,514	60,812	352.6
2014	5,341	6,785	16,332	91,773	2,151	9,279	56.8

- Perennial insurance programs include Hay and Moisture Deficiency Endorsement, Export Timothy Hay, and Satellite Yield and Moisture Deficiency Insurance for pasture.
- Note: 2011 census shows 26,947,451 Alberta hay and pasture acres.

Endorsements - an Overview

AFSC offers additional endorsements to its clients to enhance Alberta's risk management programs and provide the most comprehensive insurance coverage in Canada. These endorsements are funded by producers, the Government of Alberta, and cost-shared with the federal government (except for the Spring Price Endorsement).

The endorsements respond to specific needs, which in many cases are identified by producers themselves. The Spring Price Endorsement and Hail Endorsement are available for purchase with most crop insurance products (more than one endorsement may apply to a single product).

Spring Price Endorsement provides price protection that triggers when an eligible commodity's fall market price decreases by more than 10 per cent below the spring insurance price. These premiums are cost-shared (50:50) between the Government of Alberta and subscribing producers.

This program helps producers manage "within-year" price risk, and pays on actual crop production up to the selected coverage level. For indemnity calculations, the fall market price is capped at a maximum decrease of 50 per cent below the spring insurance price.

- Spring Price Endorsement payments to clients totaled $2.84 million in 2015-16. Below the $3.9 million in total payments issued for the 2014 crop year, the decline in the 2015 crop year is primarily due to the greater impact on multiple commodity prices that occurred in the previous year.

Crop Year	Contracts	Acres ,000	Premium $,000	Liability $,000	Contracts with indemnity	Indemnity $,000	Loss/ premium %
2015	1,017	745	15,098	202,171	89	2,835	18.8
2014	927	544	9,537	137,726	185	3,899	40.9

Hail Endorsement provides spot-loss coverage for crop damage caused by hail, accidental fire, or fire by lightning. Coverage is limited to the level that the producer selects for their crop insurance policy.

These premiums are significantly lower than Straight Hail premiums. Producers only pay 33 to 37 per cent of the Straight Hail premium rate, depending on the type of crop.

Premiums are cost-shared between producers (50 per cent), the Government of Alberta (36 per cent) and the federal government (14 per cent).

- In 2015-16, 3,386 Hail Endorsement clients reported a loss. This resulted in 4,747 inspections for a total of $206.3 million in payments, and compares to last year's 3,954 subscriptions that received $250.8 million.

Crop Year	Contracts	Acres ,000	Premium $,000	Liability $,000	Contracts with Indemnity	Indemnity $,000	Loss/ Premium %
2015	10,482	13,251	216,778	3,571,044	3,386	206,311	95.2
2014	10,631	13,088	194,668	3,139,066	3,954	250,786	128.8

• Subsidized premium and linked with AgriInsurance programs.

Straight Hail Insurance

Straight Hail Insurance provides producers with spot-loss crop protection from hail damage, accidental fire or fire by lightning. Anyone with an interest in an insurable crop grown in Alberta, whether they are a producer, a tenant or a crop-share landlord, can purchase Straight Hail Insurance. Coverage is available from the time the crop emerges until it is harvested. The Straight Hail Insurance program is self-sustaining and fully funded by producer premiums.

2015-16 Year in Review

The program's 3,757 clients covered 3.8 million acres, which created $546.4 million in insured risk and generated premiums of $45.1 million. In total, 31.9 per cent of subscribing clients experienced a loss, which resulted in payments of $32.6 million and a 72.3 per cent loss-to-premium ratio. In 2014, 37.1 per cent of subscribing clients reported a loss, which resulted in payments of $61.2 million and a 109.3 per cent loss-to-premium ratio.

The reduction in contracts and insured acres was due to clients who did not purchase additional hail insurance because of the summer's dry conditions, which were already affecting crop growth.

Crop Year	Contracts	Acres ,000	Premium $,000	Liability $,000	Contracts with Indemnity	Indemnity $,000	Loss/ Premium %
2015	3,757	3,801	45,123	546,385	1,199	32,601	72.3
2014	4,617	4,844	56,044	711,395	1,713	61,236	109.3

- 100 per cent Producer funded premiums.

Western Livestock Price Insurance Programs (WLPIP)

AFSC's Livestock Price Insurance Programs were born of an industry-driven initiative to provide Alberta cattle and hog producers with an easy-to-use, made-in-Alberta risk management tool. These programs offer simple, bankable and market-driven solutions to manage market price risk; it allows producers to insure a floor price on their cattle and hogs, while still having the ability to sell the animals at a higher price if markets rise above the insured price. Due to the success of the Alberta program, Alberta, British Columbia, Saskatchewan, Manitoba and the Federal Government entered into a four pilot program (starting in 2014) for producers across Western Canada.

2015-16 Year in Review

A strong cattle market with unpredictable market conditions limited uptake in the Western Livestock Price Insurance Program in 2015-16. WLPIP producers across the western provinces reduced their program coverage in comparison to the last fiscal year. Alberta producers purchased price protection on 67,000 fed cattle, 47,000 feeders and 151,000 calves. This amounts to approximately $465 million in total liability coverage. Premiums collected over the fiscal period totaled $6.6 million, and indemnities of $5.3 million were paid to participating producers in all three cattle programs.

Markets and price optimism were strong across all sectors at the start of the year; combined with strong fundamentals, there was no apparent risk that prices would drop. However by August 2015, signs of a decline started to appear on both the retail side (due to push back from consumers over high meat costs) and from cattle feeders, who were faced with negative margins or reduced returns. This trend impacted all parts of supply chain pricing in the cattle market.

Decreased margins for feeder (backgrounder) and fed (feedlots) operations was one major impact on WLPIP buying interest when comparing year-over-year results. As prices began to decline in the fall, producers were either unable to use WLPIP to lock in a profit or unwilling to use WLPIP to secure a negative margin and limit their losses. In short, reduced WLPIP coverage levels combined with high price volatility in the markets to increase premiums, which directly impacted calf, feeder and fed policy sales.

From the start of the WLPIP – Calf sales season (February 2) to the fiscal year-end, 128 calf policies were sold in Alberta to cover 14,000 head; this is down from the 530 policies (covering 60,000 head) at the same time last year. Top coverage for a 24 week policy struck $206/hundredweight (at a cost of $7.22/hundredweight), compared to $278/hundredweight (at a cost of $6.01/hundredweight) in 2014-15's fourth quarter.

The high cost of premiums is a significant deterrent to WLPIP – Hog, which again procured limited policy sales. However, the program does not strive to accommodate one-off successes, and remains an option on which livestock producers' can rely on to maintain the long-term financial health of their operation.

In summary, producer optimism, higher premiums and lower coverage all converged to reduce uptake year-over-year; however, effective and efficient WLPIP delivery to producers continues to be a high priority for AFSC. AFSC is committed to providing a fiscally-sound and self-sustainable price risk management program for Alberta hog and cattle producers.

Fiscal year	Policies	Premium $,000	Risk $,000	Indemnity $,000	Loss/Premium %
2015-16	1,852	6,556	465,464	5,282	81
2014-15	4,745	20,730	1,249,019	249	1
2013-14	6,002	23,434	1,770,236	3,244	14
2012-13	1,571	8,490	598,150	23,375	275

Wildlife Damage Compensation Program (WDCP)

Crop damage caused by wildlife and waterfowl is a reality in agriculture. AFSC compensates producers on behalf of the provincial and federal governments for this type of crop damage through the Wildlife Damage Compensation Program (WDCP).

The WDCP includes the following:

- Spot-loss coverage for unharvested crops damaged by waterfowl, big game animals or upland game birds. The program applies to all commercially grown annual crops and hay that can be insured under Production and Straight Hail Insurance programs. Crops grown for pasture or cut for grazing are not eligible. Excreta Market Loss-Cleaning compensates producers for reduced market value or for the cost of grain cleaning due to wildlife excreta.
- Compensation for crops and silage in pits and tubes that are contaminated with wildlife excreta.

The WDCP is available nationally, and is cost-shared in Alberta by the federal (60 per cent) and provincial governments (40 per cent). It compensates incurred losses to a maximum of 80 per cent. The remaining 20 per cent of losses are covered exclusively by the Government of Alberta. The remaining indemnities are funded by the federal government (48 per cent) and the provincial government (52 per cent). The federal government also funds 60 per cent of the administrative and inspection costs, while the Government of Alberta funds the remaining 40 per cent. Producers who wish to participate in WDCP are not required to have insurance to qualify for a claim.

2015-16 Year in Review

The long, open fall and harvesting delays gave wildlife time to graze on the mature crops still in the fields. A total of 601 claims for 2015-16 paid out $6.2 million, compared to 558 claims and a payout of $4.8 million last year.

	Wildlife		Waterfowl		Total	
Crop Year	Number of claims	Indemnity $,000	Number of claims	Indemnity $,000	Number of claims	Indemnity $,000
2015	366	4,716	235	1,490	601	6,207
2014	385	3,990	173	797	558	4,787

- Wildlife and waterfowl damage compensation (data includes claims for wildlife excreta and market loss).
- Wildlife losses - 100 per cent government funded (no premium).

LENDING

For 44 years, AFSC has supported primary agricultural producers, commercial and agribusinesses in Alberta through its lending programs. These products address market gaps, the needs of Alberta's entrepreneurs and rural development. Through partnerships with producers and businesses, AFSC helps maintain a profitable agriculture sector in the province, and stimulates healthy rural communities. With loans of up to $5 million available to producers and businesses, AFSC clients can choose the right financial option to suit their needs.

AFSC offers loans for farms, commercial operations, agri-businesses and value-added enterprises. It also offers loan guarantees and capital sourcing services.

2015-16 Year in Review

AFSC authorized 2,078 new direct loans and guarantees for the period ending March 31, 2016 for $562 million, well above the $523 million reported for 2014-15 year. This generated $857 million of investment in the province's agriculture, agri-industry and value-added sectors. AFSC's lending portfolio climbed to $2.18 billion from $2.08 billion reported in the previous year

Alberta Farm Loan Program

This program assists with working capital, land and equipment purchases, or existing debt refinancing. The Beginning Farmer Incentive helps new producers get started by reducing borrowing costs by an additional 1.5 per cent for the first five years of the loan.

2015-16 Year in Review

Farm loans continued positive momentum in 2015-16, generating 1,539 approved loans and $396 million, compared to 1,576 loans and $369 million in 2014-15. This can be partly attributed to a rise in farm land values by 11.6 per cent, according to Farm Credit Canada Farmland Values Report 2015. Strong cattle prices and better-than-expected crop yields contributed to both the increase in approved farm loans and dollars. Subsequently, farm lending arrears decreased to 0.4 per cent, compared to 0.5 per cent in 2014-15.

Fiscal Year	Number of loans	Lending $,000	Project Outlay $,000
2015-16	1,539	395,825	453,516
2014-15	1,576	368,520	422,033

Revolving Loan Program

The Revolving Loan Program meets the needs of Alberta's primary producers by enabling borrowing through an online, self-selecting and reusable loan facility that reduces the need for repeated transactions and provides faster service. The program offers a fixed-rate for terms of up to three years. Loans are renewable upon expiry.

2015-16 Year in Review

The number of Revolving Loans approved for the 2015-16 year increased to 319 from the 201 accounted for in 2014-15. Increased input costs and changes to the revolving loan payment (from monthly interest plus one per cent principal payments to interest only) contributed to the increase.

Fiscal Year	Number of Loans	Lending $,000	Project outlay $,000
2015-16	319	49,432	50,627
2014-15	201	31,526	31,496

Value-Added and AgriBusiness Program (VAAP)

This program provides assistance to businesses that support agriculture and to agriculturally-focused, value-added enterprises with fixed-rate loans so that they can acquire land, equipment or refinance debt working capital.

Value-added is defined as an enterprise that processes or alters a product and adds value to the product through a business or manufacturing process in either agri-industry or any other industry. Enterprises that are retail or service industries are not considered value-added.

2015-16 Year in Review

Value-added and AgriBusiness Program (VAAP) loans are down from 84 in 2014-15 to 77 in 2015-16. However, submissions for interest-only and re-amortization grew. VAAP arrears increased to 7.6 per cent by the fiscal year-end, up from the 4.5 per cent reported at the end of 2014-15.

Fiscal Year	Number of Loans	Lending $,000	Project outlay $,000
2015-16	77	37,112	80,752
2014-15	84	45,137	95,002

Commercial Loan Programs

The Commercial Loan Program assists both rural and urban commercial businesses in growing their operations by providing fixed-rate loans.

2015-16 Year in Review

Alberta's slowed economy has resulted in increased requests for restructured Commercial Loans including submissions for interest-only and re-amortization arrangements. AFSC is receptive to these client applications, and continues to follow its normal due diligence in approving the requests ensuring appropriate actions were taken and strong plans are in place going forward.

The number of Commercial loans approved for the 2015-16 year was 97, a decline from 129 in 2014-15. Commercial arrears increased to 7.6 per cent by the fiscal year-end, up from the 4.5 per cent reported for 2014-15.

Fiscal Year	Number of Loans	Lending $,000	Project outlay $,000
2015-16	97	61,027	140,619
2014-15	129	63,005	131,957

Specific Loan Guarantee Program

This program provides guarantees to other lenders in support of operating loans to facilitate a client's access to working capital.

2015-16 Year in Review

Under the Specific Loan Guarantee Program for Feeder Associations, AFSC processed 46 applications (including initial applications or renewals) for a total of $18.7 million in 2015-16. This compares to 13 feeder applications and a total of $5.8 million in the previous fiscal year. This significant increase can be attributed to the fact that the program was not initiated until the latter part of the 2014-15 fiscal year.

As well, program fees were reduced for livestock associations this year to 1.1 per cent of the guarantee from 3 per cent last year to better reflect their risk.

Fiscal Year	Number of Loans	Lending $,000	Project outlay $,000
2015-16	46	18,657	131,050
2014-15	13	5,802	38,683

Disaster Recovery Programs

Following the devastating wildfires in Slave Lake in May 2011, AFSC initiated and administered direct support to eligible enterprises by providing debt capital that was interest-free and payment-free for the initial 24 months.

AFSC Alberta Flood Recovery Loan Programs, Alberta Flood Recovery Loan Guarantee Program and Alberta Flood Recovery Interest Rebate Program were announced in July of 2013 in response to the destructive floods in Southern Alberta.

2015-16 Year in Review

The Slave Lake Benefit has nearly concluded. From the $96 million in total funds that was disbursed to Slave Lake businesses, $72 million is repaid. A number of businesses have chosen to maintain their AFSC financing at regular AFSC interest rates, which accounts for the $24 million outstanding loan balance. There are 11 loans in arrears for a total of $541,142; four of these are in security action. The interest-free period ended in 2015-16.

The Alberta Flood Recovery Interest Rebate Program paid $632,662 in interest rebates for the 2015-16 fiscal year.

OPERATIONS

Client Experience Commitment

AFSC continues to build upon its solid culture of performance by ensuring staff have the knowledge and tools they require to service clients with excellence. Employees are the backbone of AFSC and a vital link to providing the high level of service that Alberta producers and business owners have come to expect.

2015-16 Year in Review

In 2015-16 AFSC continued to strengthen its client-centric foundation. In the past year, a number of initiatives to ensure AFSC is collecting client insight, listening to concerns and responding to feedback on a regular basis. To further this process, a robust electronic survey tool deployed to amass client feedback, which includes developing a deeper understanding of how they experience the various transactions that occur throughout the year.

AFSC conducted six surveys in 2015-16, the first of which was issued in November. As evidence that our clients have an interest in engaging and sharing the feedback with AFSC, the response rate to these surveys is 30 per cent. These surveys found that 95.7 per cent of surveyed AFSC clients are either satisfied or very satisfied with their representative's knowledge, while 94 per cent of respondents indicated that AFSC staff members show a genuine interest in their business. AFSC also collects respondent comments.

All survey comments and data are analyzed, compiled and shared with the entire corporation to ensure the client voice is heard and that all AFSC departments have the resources required for evidence-based decision-making. Additional client interviews and research took place throughout the year, providing awareness of that which clients desire when interacting and transacting with AFSC, especially online. The findings resulted in the launch of a new project, an online interface called AFSC Connect, which will seek to achieve two important goals: an improved online experience for clients, and internal efficiency for AFSC staff. AFSC Connect is expected to be a major step toward providing state-of-the-art options to those who conduct business with AFSC.

Goals and Corporate Performance

AFSC's 2015-16 Corporate Plan contained additional strategies and an action plan to achieve its goals. Several AFSC Corporate strategies are client-focused, designed to better serve customers, who include producers on the ground as well as rural and agri-businesses clients. Accordingly, AFSC surveys its clients regularly to obtain their feedback and to gauge their satisfaction levels with all programs offered by AFSC. Customer feedback is used to monitor the effectiveness of program delivery and management processes, and to identify areas for continuous improvement.

Turnaround Times

AgriInsurance has two key turnaround performance targets. The first is to measure the time from when a producer files a claim to when an AFSC adjuster completes an on-farm inspection. The second measure is the time from when an adjuster completes an on-farm inspection to the time that the claim payment is processed.

For Hail Endorsement and Straight Hail claims, 61 per cent of inspections were completed within 25 days, which did not meet the target of 80 per cent within 25 days. The target was not met due to the timing of dry conditions and number of pre-harvest inspections that it caused. The average number of days for a claim to be filed to inspected this year was 24, compared to 31 days last year.

These reductions are attributed to the introduction of remote access to systems that provide real time data, mobile apps that reduced duplicate entry and strategic movement of inspectors to high-claim areas.

In this fiscal year, 85 per cent of these claims were paid within five days of the inspection, well ahead of the target (80 per cent of claims paid within five days).

For AgriInsurance post-harvest claims, 55 per cent of inspections were completed within 45 days of being filed to inspected, which fell short of the target of 80 per cent within 45 days. This target was not met due to the coinciding of harvest completion across the province and the filing of client claims. However, improvement was made in the average number of days it took to complete an inspection (47 days in 2015-16 compared to 61 days in 2014-15).

In 2015-16, 70 per cent of claims were paid within 15 days from inspection, short of the target (80 per cent in 15 days). Again, improvements were made in the average number of days it took to pay a claim; it took 10 days in 2015-16, compared to 18 days last year. The reductions are attributed to the introduction of a mobile app that reduced duplicate entry and enhanced policies that increased the number of claims paid from producer declarations.

The AgriStability Program has two key turnaround performance targets that measure the percentage of claims completed within a specific time-frame. The first measures claims that received a benefit payment; the goal is to complete 80 per cent of payment claims within 45 days. The second measures claims with no benefit payment; the goal is to complete 80 per cent of all non-payment claims within 65 days.

In 2015-16, turnaround time for 2014 program year claims 66 per cent of all claims were completed within 45 days, while the average time it took for all claims to be completed was 38 days. For claims that received no payment, 94 per cent were completed within 65 days, while the average was 13 days.

Lending Portfolio Performance

Approvals, leverage, and arrears are the three key performance targets for lending. Total actual loans and guarantees approved were $562 million; compared to $523 million in approved loans and guarantees last year, 2015-16 exceeded the target of $558 million. Surpassing this target resulted from strong demand for agriculture debt capital. The second measure was the leverage of the total project value to the debt capital, in which the actual results of 1.5 percent exceeded the target of 1.4 per cent. The feeder-loan guarantees contributed to exceeding this target.

Lending payments in arrears is the third measure. The actual arears at March 31, 2016 was 1.9 per cent, outperforming the target of 3 per cent. The economic conditions contributed to the increase of Commercial and Value Added and Agribusiness Program arrears to 7.6 per cent from 4.5 per cent last year. The agricultural portfolio's strong performance contributed to this trend, as low arrears of 0.4 per cent further decreased from last year's 0.5 per cent.

Project Management

AFSC measures the effectiveness of its project management using a weighted average of on-time statistics. Our current year ratio of 66 per cent is below the target of 75 per cent. AFSC continues to focus on improving its project management processes in working towards meeting these targets. In addition, projects-only are measured on a 75 per cent target for being on budget; AFSC exceeded this target in the 2015-16 year, as 83 per cent of all projects were on budget.

Employees

Staff engagement continued to be a focus for AFSC this year, with quarterly surveys being sent to all staff. In a year that saw many external factors that could have impacted employee engagement at AFSC, fourth quarter survey results held steady with overall engagement decreasing by just one per cent.

The overall engagement index result for quarter four was 72 per cent, with the previous year being 67 per cent. The target is to have 75 per cent engagement. Quarter four also saw an increase in staff who are satisfied with their work at 87 per cent from 78 per cent the same time last year. Seventy-nine per cent of staff are proud to tell people they work for AFSC, and 73 per cent recommend AFSC as a great place to work. Seventy-three per cent of staff are inspired to give their very best and 61 per cent feel valued at AFSC. Sixty-two per cent say they prefer to stay with AFSC.

ENTERPRISE RISK MANAGEMENT

To mitigate the risk involved in AFSC's business activities, the Board of Directors sets goals and strategic priorities - that are clearly linked to departmental tactical plans - for the upcoming fiscal year. Among these priorities is risk management, which is vital to protecting AFSC's clients, business interests, and long-term viability. AFSC is in the process of developing a comprehensive Enterprise Risk Management plan to mitigate identified risks to acceptable levels. The Enterprise Risk Management plan and practices are overseen by the Board of Directors and its committees.

The Executive Leadership Team is responsible for managing corporate-wide enterprise risk, in which all levels of management are responsible for active risk monitoring and the implementation of appropriate measures to mitigate them. The Enterprise Risk Management plan ensures that risk-taking activities and practices are appropriate to meet client needs and also fulfill AFSC's corporate strategy and goals. The following is an overview of some key risks the corporation faces, and how these risks are managed.

Strategic Planning

The Board of Directors conduct an annual strategic planning retreat where it reviews the corporate vision, mission, goals and strategic priorities as identified through an economic and agricultural scan. The board also reviews the mandates of AFSC and its core programs, and deals with strategies to address key risks.

Credit Risk

Credit risk is the possibility that a debtor will not pay amounts owing to AFSC, thus resulting in a loss. Security requirements for a loan or guarantee will be different depending on the risk involved in each individual operation. New and emerging businesses are required to provide adequate security, as are enterprises needing specialized or customized equipment.

Lending staff continually monitor loan accounts for risk and ensure a prompt response to any financial difficulties that clients may encounter. Although these measures do not eliminate risk, they diminish the possibility of significant losses. The breakdown of AFSC's loan portfolio by sector is provided in Note 14 to the financial statements to highlight the areas of credit risk exposure by industry.

AFSC invests surplus funds generated by production and hail insurance operations. The majority of these funds are invested in bonds of federal or provincial governments, or securities of corporations that have superior credit ratings to minimize the risk of loss of the investment. The investments are managed by Alberta Investment Management Corporation, an Alberta Crown corporation. AFSC also invests in asset-backed securities (AAA rating) and senior bank notes (A rating and higher), securities which have relatively low levels of risk.

Payments to some CAIS and AgriStability participants resulted in over payments when information provided by participants to AFSC proved to be incorrect or unfounded. As this creates a risk of potential non-repayment of the over payments, AFSC may offset over payments against any payments to clients.

The insurance coverage that AFSC provides on crops becomes effective at the acceptance of the client's application for insurance, whether or not payment of premiums is made in full. To minimize the risk of non-collection of outstanding insurance premiums, AFSC offers a discount for early payment of insurance premiums and arranges a payment schedule for all clients who do not take advantage of the discount. Insurance staff monitors outstanding premiums closely, and when required, promptly take collection action.

AFSC accepts insurance coverage on credit, and offers a discount for premium payments received the earlier of June 25 or within 15 days of the billing date, with the exception of the Western Livestock Price Insurance products. These must be paid within 15 days. Clients facing financial difficulties may ask to make arrangements for a payment schedule. Unless specific payment arrangements have been approved, insurance is not renewed when there are outstanding premiums from a prior year.

To reduce AFSC's exposure to insurance program risk, AFSC enters into reinsurance arrangements with private sector reinsurance companies. AFSC selects reinsurance companies with superior credit ratings to mitigate credit risk related to non-recoverability of reinsurance proceeds from private reinsurance companies. In addition, AFSC engages a wide range of reinsurance companies to minimize the concentration of credit risk for the reinsurance contracts within its portfolio.

Interest Rate Risk

Interest rate risk is the impact that future changes in interest rates have on cash flows and fair value of assets and liabilities. To mitigate interest rate risk, AFSC focuses on matching the repayment timing of amounts borrowed with the repayment timing of loans made. AFSC allows its borrowers to repay loans in part or in full at any time without penalty.

Repayment of loans by clients in part or in full prior to the contract date is a normal feature of AFSC's lending programs. AFSC strives to minimize the gap between loan repayment and debt repayment on a regular basis. As loan repayments before maturity are not determinable with reasonable certainty, gaps are identified and dealt with when new borrowings are made.

The gap position as of March 31, 2016 is presented in Note 14 to the financial statements. At March 31, 2016, there was a reasonable gap between the amount of loan and debt repayments due within the one-year period. AFSC has plans to bridge this gap through new borrowing that would result in a reduction of interest rate risk.

Interest rate risk is further mitigated by AFSC's Investment Policy, which covers surplus funds related to AgriInsurance, hay and pasture insurance and hail insurance program operations. The investment policy is approved by the Board of Directors, and compliance with the policy is reported to the board audit committee at least twice a year. Duration of investments is set to match management's best estimate of when investments need to be liquidated to meet financial commitments.

Liquidity Risk

Liquidity risk is the potential for financial loss if AFSC cannot meet its financial commitments for cash. As an integral part of liquidity management, AFSC uses sound cash management practices through cash flow statements, with an objective to maintain sufficient funds to meet business needs at all times. AFSC mitigates liquidity risks by retaining adequate bank balances in operating accounts. These accounts yield a reasonable rate of return through the Government of Alberta Consolidated Cash Investment Trust Fund. The investment portfolio of surplus funds in insurance operations is structured so that a portion of the portfolio is accessible at short notice to fund claim payments. Additionally, AFSC has access to advances from the provincial government to meet short-term cash flow needs.

Insurance Risk

Insurance risk is the potential for financial loss if AgriInsurance claims exceed program premiums and reserves in a given year. AFSC applies sound actuarial principles to mitigate insurance risk by setting premium rates to break even with claim payments over a term of 25 years. Independent actuarial firms certify AFSC's major insurance programs to ensure their long-term sustainability and a method of setting premiums that is reasonable. The federal and provincial governments provide reinsurance funds to AFSC to help mitigate inherent insurance risks for its AgriInsurance program. This is described in more detail in Note 2 (m) to the financial statements. A summary of transactions in the two reinsurance funds is under Note 16 to the financial statements. AFSC management has arranged reinsurance with private sector companies to further mitigate risks inherent to the insurance business. In the event that insurance claims exceed a threshold level that is determined in relation to premiums, these reinsurance arrangements limit AFSC's exposure to insurance program losses. In 2009, AFSC launched new price risk protection insurance for the cattle sector. The program has yet to build adequate reserves to be able to absorb unexpected levels of claims.

Operational Risk

The risk of loss resulting from insufficient or failed internal processes is referred to as operational risk. AFSC has developed an Enterprise Risk Management Plan to provide a framework and common understanding of risk and mitigation measures. Corporate policies and procedures are also in place to ensure internal controls exist and are adequate to reduce exposure to operational risks. AFSC has established formal processes to monitor compliance with policies and procedures; managers oversee operational risk in their respective work areas. Operations, Finance, Human Resources, Administrative Services and Information Technology manage operational risks specific to their areas as follows:

- **Operations**: operational risks inherent in businesses and processes;
- **Finance**: credit, interest rate, liquidity and financial controls;
- **Human Resources**: employee recruitment, retention, succession planning and employee management;
- **Administrative Services**: physical facilities and assets, employee safety and security, corporate liability and business continuity; and
- **Information Technology**: computer information processing systems, electronic information, security, data integrity, disaster recovery and storage, retrieval, and destruction of electronic information.

The Internal Audit Department plans and conducts operational and functional audits based on risk assessments, and regularly examines internal process controls and compliance with policies and procedures. External auditors review the effectiveness of internal controls annually. Both external and internal auditing groups report their findings and recommendations to the board audit committee. The recommendations from these two audits are passed to the Executive Leadership Team to implement in a timely manner. Management is responsible for periodic reporting of progress on implementation of audit recommendations to the board audit committee.

WHISTLEBLOWER PROTECTION ACT

AFSC is committed to conducting its affairs to the highest standards of ethics, integrity, honesty, fairness and professionalism, and in accordance with the principles of procedural fairness and natural justice. On January 1, 2016 AFSC launched it's Whistleblower Protection Program which provides a safe, confidential and anonymous mechanism for facilitating the Disclosure and investigation of "Wrongdoings" which are defined by the Government of Alberta's 2013 Public Interest Disclosure (Whistleblower Protection) Act as, significant and serious matters in or relating to AFSC that an employee believes may be unlawful, dangerous to the public, or injurious to the public interest.

The purpose of the AFSC's Whistleblower Protection Program includes:

- facilitating the Disclosure and investigation of "Wrongdoings" as defined in the Act which are inbrief, significant and serious matters in or relating to public entities that an employee believes maybe unlawful, dangerous to the public or injurious to the public interest;
- protecting employees who make those Disclosures from reprisal;
- resolving recommendations arising from investigations; and
- promoting public confidence in the administration of public entities.

In compliance with legislated reporting requirements, from April 1, 2015 to March 31, 2016, there has beenone disclosure(s) under PIDA to the AFSC Designated Officer; as such, one investigation(s) was completedwhich found that no instance(s) of Wrongdoing had occurred.

Disclosures Received	Disclosures Acted Upon	Disclosures Not Acted Upon	Investigations Commenced	Findings of Wrongdoing	Disclosures Closed
1	1	0	1	0	1

FINANCIAL HIGHLIGHTS

NOTE: Please read the following information in conjunction with AFSC's financial statements and attached notes.

Overall, AFSC recorded revenue of $946 million and expenses of $800 million, which resulted in a net surplus of $146 million. Although the beginning of the crop year was challenging, the resulting surplus was mainly due to late summer rain and delayed frost that lead to better-than-average yields.

AFSC's assets increased from $4.395 billion to $4.659 billion of which $2.161 billion (46 per cent of all assets) represents the loan portfolio. AFSC's liabilities increased from $2.220 billion to $2.338 billion, mainly a result of additional borrowing required to finance new loans.

The surplus balance carried over increased to $2.302 billion. Included in the surplus balance is $2.174 billion in the Crop Insurance Fund. This represents a $2.125 billion surplus in the national program, a $15 million surplus in Alberta initiatives, and a surplus of $34 million in the Crop Reinsurance Fund of Alberta.

AGRISTABILITY STATISTICAL SUMMARY

Income stabilization – AgriStability including Alberta initiatives

Claim year	Number of claims processed	Support level $,000	Average support level	Number of claims with payment	Total payments $,000	Average payment $
2014	12,479*	2,189,465	217,836	748	24,705	33,028
2013	16,493	2,486,401	194,997	1,798	65,435	36,393
2012	17,816	2,984,095	198,318	1,462	52,089	35,629
2011	21,086	2,790,134	155,318	2,222	50,504	22,729
2010	22,993	2,682,120	131,496	4,144	132,162	31,892
2009	26,865	2,612,578	112,325	7,855	230,356	29,326

* 12,479 claims processed out of 13,625 total AgriStability claims as of March 31, 2016.

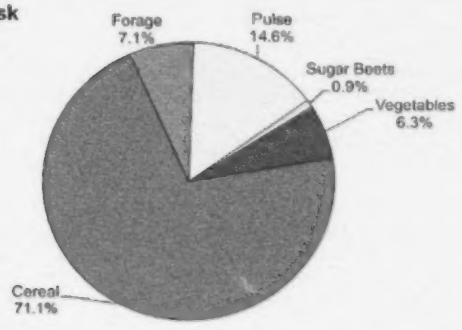
• Claims are processed with a one year lag.

AGRIINSURANCE STATISTICAL SUMMARIES

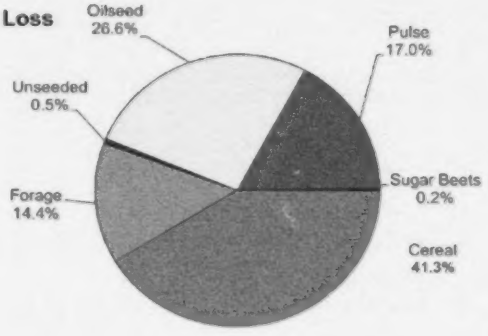
AgriInsurance for Annual and Perennial Crops as of March 31, 2016

Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Loss $,000	Loss/premium %
2015	17,034	21,423	4,042,850	617,986	474,247	76.7
2014	17,428	21,323	3,522,122	584,862	373,221	63.8
2013	18,418	21,698	4,364,681	780,420	308,535	39.5
2012	19,114	21,747	4,699,383	662,566	551,196	83.2
2011	18,762	19,961	3,886,862	612,720	315,853	51.5
2010	20,554	21,285	3,302,273	536,840	357,879	66.7

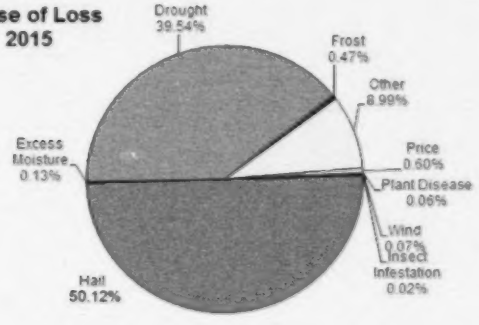
2015 Risk



2015 Loss



Cause of Loss 2015

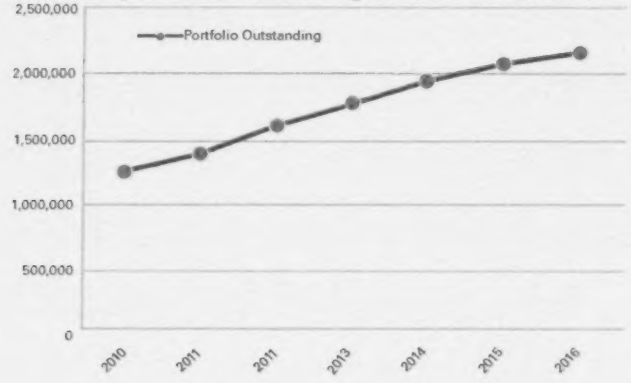


LENDING STATISTICAL SUMMARIES

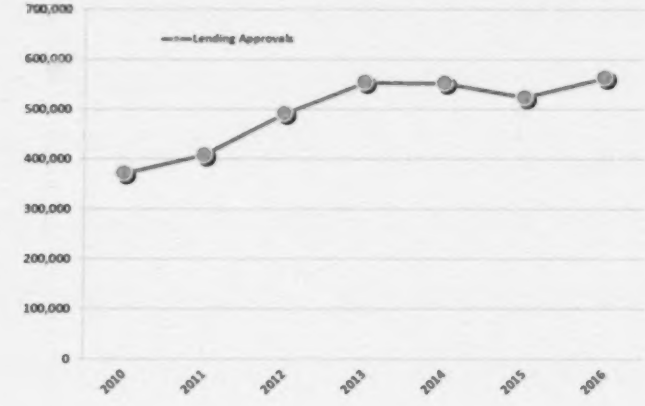
Lending statistical summaries - March 31, 2010 - March 31, 2016

March 31	New loan approvals $,000	Portfolio outstanding $,000
2016	562,053	2,177,536
2015	522,868	2,077,493
2014	551,068	1,959,334
2013	552,898	1,789,700
2012	490,013	1,610,286
2011	407,438	1,403,323
2010	370,581	1,265,653

Total loan portfolio outstanding 2010 to 2016 ($,000)



Total loan and guarantees approved (new lending) 2010 to 2016 ($,000)



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

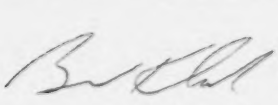
The accompanying financial statements of Agriculture Financial Services Corporation and all other information relating to the Corporation contained in this annual report have been prepared and presented by management, who is responsible for the integrity and fair presentation of the information.

These financial statements are prepared in accordance with Canadian generally accepted accounting standards. The financial statements necessarily include some amounts that are based on informed judgments and best estimates of management. The financial information contained elsewhere in this annual report is consistent with that in the financial statements.

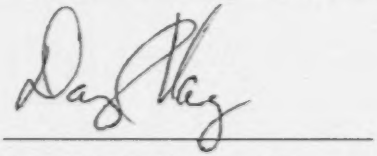
Management is responsible for maintaining a system of internal controls designed to provide reasonable assurance as to the reliability of financial information, and to ensure corporate assets are safeguarded and liabilities are recognized. The internal control systems are augmented by periodic reviews by the Corporation's internal and external auditors.

The Auditor General of Alberta has been engaged to perform an independent external audit of these financial statements in accordance with Canadian generally accepted auditing standards, and has expressed his opinion in the accompanying Auditor's Report.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board of Directors exercises this responsibility through the Board Audit Committee, composed of Directors who are not employees of the Corporation. The Board Audit Committee meets with the internal auditors and the external auditors-both in the presence and in the absence of management to discuss their audit, including any findings as to the integrity of financial reporting processes and the adequacy of our systems of internal controls. The internal and external auditors have full and unrestricted access to the Board Audit Committee.



Brad Klak, MBA, ICD.D.
President and Managing Director



Darryl Kay, B. Comm., C.A.
Chief Financial Officer

AUDITOR GENERAL *Alberta*

Independent Auditor's Report

To the Board of Directors of the Agriculture Financial Services Corporation

Report on the Financial Statements

I have audited the accompanying financial statements of the Agriculture Financial Services Corporation, which comprise the statement of financial position as at March 31, 2016, and the statements of operations, change in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assess...ent of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Agriculture Financial Services Corporation as at March 31, 2016, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Merwan N. Saher FCPA, FCA

Auditor General

June 2, 2016

Edmonton, Alberta

AGRICULTURE FINANCIAL SERVICES CORPORATION

FINANCIAL STATEMENTS

MARCH 31, 2016

Independent Auditor's Report

Statement of Financial Position

Statement of Operations

Statement of Changes in Net Financial Assets

Statement of Cash Flows

Notes to the Financial Statements

Schedule of Operations

Schedule of Salaries and Benefits

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2016
(dollars in thousands)

	2016	2015
FINANCIAL ASSETS		
Cash	$ 320,661	$ 216,869
Accounts receivable (Note 3)	4,715	7,936
Due from Government of Alberta	43,784	66,250
Due from Government of Canada	194,275	155,677
Loans receivable (Note 4)	2,161,466	2,067,622
Investments (Note 5)	1,891,416	1,834,695
	4,616,317	4,349,049
LIABILITIES		
Accounts payable and accrued liabilities (Note 6)	16,679	14,387
Due to other provincial governments (Note 7)	606	4,736
Indemnities payable (Note 8)	167,535	172,484
Borrowing from Government of Alberta (Note 9)	2,146,362	2,023,926
Deferred revenue (Note 10)	6,932	4,349
	2,338,114	2,219,882
Net Financial Assets (Net Debt)	2,278,203	2,129,167
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 11)	38,666	41,614
Prepaid expenses	3,958	4,123
	42,624	45,737
Net assets before deferred capital contributions	2,320,827	2,174,904
Spent deferred capital contributions (Note 10)	$ 19,002	$ 18,657
Net assets at end of year	$ 2,301,825	$ 2,156,247

Contingencies, Contractual Obligations and Commitments (Note 13)

The accompanying notes and schedules are part of these financial statements.

Dean Gallimore, Chair of the Audit Committee

George Groeneveld, Chair of the Board

Brad Klak, President and Managing Director

Darryl Kay, Chief Financial Officer

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF OPERATIONS

YEAR ENDED MARCH 31, 2016

(dollars in thousands)

	2016		2015
	Budget	Actual (Schedule 1)	Actual
Revenues:			
Premiums from insured persons	$ 314,243	$ 298,890	$ 307,214
Interest	94,603	88,398	88,410
Contribution from Government of Alberta	301,994	278,535	290,291
Contribution from Government of Canada	263,311	220,510	244,132
Investment income	38,788	44,454	43,695
Fees and other income	14,445	15,250	16,535
	1,027,384	946,037	990,277
Expenses:			
AgriInsurance	740,600	551,083	431,868
Agriculture Income Support	147,720	86,669	134,641
Lending	111,363	107,152	104,817
Hail Insurance	53,955	36,814	66,517
Livestock Insurance	13,152	11,916	4,456
Wildlife Damage Compensation	6,615	6,825	4,184
	1,073,405	800,459	746,483
Net operating results	$ (46,021)	$ 145,578	$ 243,794

The accompanying notes and schedules are part of these financial statements.

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

YEAR ENDED MARCH 31, 2016

(dollars in thousands)

	2016		2015
	Budget	Actual	Actual
Net operating results	$ (46,021)	$ 145,578	243,794
Acquisition of tangible capital assets	(8,050)	(7,075)	(5,876)
Amoritization of tangible capital assets (Note 11)	10,315	10,001	9,650
(Gain) Loss on disposal of tangible capital assets	-	(82)	28
Proceeds on sale tangible capital assets	-	104	24
Change in prepaid expenses	3,117	165	553
Change in spent deferred capital contributions	500	345	411
Increase (decrease) in net financial assets (net debt) in the year	(40,139)	149,036	248,584
Net financial assets, beginning of year	2,127,250	2,129,167	1,880,583
Net financial assets, end of year	$ 2,087,111	$ 2,278,203	$ 2,129,167

The accompanying notes and schedules are part of these financial statements.

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2016

(dollars in thousands)

	2016	2015
Operating activities:		
Net operating results	$ 145,578	$ 243,794
Non-cash items included in operating results		
Amortization of capital assets	10,001	9,650
Deferred capital contribution recognized as revenue	(7,005)	(3,771)
Amortization of premiums and discounts	(1,915)	3,102
Allowance for doubtful accounts and for losses	4,839	4,221
Gain on sale of investments	(8,356)	(7,621)
Loss on disposal of capital assets	(82)	28
Unearned revenue received	6,932	4,349
Changes in assets and liabilities relating to operations	(21,584)	(28,446)
Net cash provided by operating activities[1]	128,408	225,306
Investing activities:		
Proceeds from repayments of loans receivable	426,548	383,338
Loan disbursements	(528,026)	(506,186)
Purchase of investments	(807,196)	(1,064,288)
Proceeds on disposal of investments	759,321	870,245
Net cash utilized by investing activities	(149,353)	(316,891)
Capital activities:		
Purchase of tangible capital assets	(7,075)	(5,876)
Proceeds on disposal of tangible capital assets	104	24
Net cash utilized by capital activities	(6,971)	(5,852)
Financing activities:		
Borrowing from the Government of Alberta	783,000	123,586
Contributions restricted for capital	7,350	4,182
Repayment of borrowing from the Government of Alberta	(658,642)	(45,479)
Net cash provided by financing activities	131,708	82,289
Net decrease in cash during the year	103,792	(15,148)
Cash at beginning of year	216,869	232,017
Cash at end of year	$ 320,661	$ 216,869

[1] Net cash provided by operating activities includes $70,377 (2015 $70,612) of interest paid.

The accompanying notes and schedules are part of these financial statements.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

(dollars in thousands)

Note 1 Authority and Purpose

The Agriculture Financial Services Corporation (the "Corporation") operates under the authority of the *Agriculture Financial Services Act*, Chapter A-12 RSA 2000. AFSC is exempt from income taxes under the *Income Tax Act*.

The Corporation provides income stabilization, disaster assistance, AgriInsurance, livestock price insurance and loans and guarantees to primary agriculture producers in Alberta. Loans and guarantees are also provided to commercial Alberta businesses.

Note 2 Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

Basis of Financial Reporting:

(a) Revenue Recognition

Premiums from insured persons are recorded as revenue when earned over the insurance policy contract term for AgriInsurance and Hail Insurance programs. A corresponding premium contribution from the Governments of Canada and Alberta is also recognized on policies sold under the AgriInsurance programs and is included in Contributions from the Governments of Canada and Alberta. Premiums received by the Corporation in advance of the related policy term are recorded as deferred revenue until earned.

For the Livestock Price Insurance Program premiums are recorded as revenue when a policy is sold.

Government transfers from the Governments of Canada and Alberta are referred to as government contributions. Contributions from the Governments of Canada and Alberta for estimated compensation payments to participants under Agriculture Income Support Programs such as AgriStability (formerly the Canadian Agriculture Income Stabilization (CAIS)), AgriInvest, AgriRecovery and Wildlife Damage Compensation are recognized in the period in which the program payments to producers are determinable. Overpayments of compensation payments under the AgriStability program are recovered through repayment or the reduction of future eligible payments under the program or other programs administered by the Corporation. Overpayments are repayable to the Governments of Canada and Alberta.

Contributions received from the Governments of Canada and Alberta that are restricted for the acquisition of tangible capital assets are recognized as deferred revenue when received and recognized as revenue over the useful life of the acquired tangible capital assets.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(a) Revenue Recognition (continued)

Interest income on loans receivable is recognized as earned over the period of loan repayment except for impaired loans. At the date impairment is assessed, arrears of interest is derecognized and is not accrued until the loan reverts to performing status or is terminated. When an impaired loan is reverted to performing status, interest is accrued and recognized from the date of change in status of the loan. Interest previously unrecognized is recognized only when payment is received.

Investment income is recognized in the period in which the income is earned. Gains or losses on the value on investments are recognized when realized on disposition.

Fees which are primarily from lending activities and AgriStability applications are recognized on processing of the related application. AgriStability program application fees received in advance of the program commencement date are recorded as deferred revenue until earned.

(b) Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year are expensed. Interest expense includes debt servicing costs such as amortization of discounts and premiums, foreign exchange gains and losses, and issuance costs.

Identifiable administrative expenses for all of the programs administered by AFSC are charged directly to the specific program. Where the direct charging of the administrative expenses to specific programs is not possible, these expenses are allocated to each program on a basis approved by management.

(c) Valuation of Financial Assets and Liabilities

AFSC's financial assets and liabilities include cash, receivables, loans receivable, investments, accounts payable and accrued liabilities, indemnities payable, borrowing from the Government of Alberta and deferred revenue. All financial instruments are held at cost or amortized cost. The effective interest method is used to recognize interest income or expense. Transaction costs related to all financial instruments are expensed as incurred.

Since no financial assets or liabilities are recorded at fair value and there were no foreign currency transactions, these statements do not present a Statement of Remeasurement Gains and Losses as the Corporation has no remeasurement gains or losses.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

(dollars in thousands)

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(d) Measurement Uncertainty

There is an inherent degree of uncertainty associated with the measurement of certain amounts recognized or disclosed in the financial statements. In the preparation of the financial statements, management is required to make estimates and assumptions that affect the reported amount of assets, liabilities, net assets and related disclosures. Estimates of material amounts relate to Indemnities payable and Allowances for doubtful accounts and for losses on Accounts receivable and Loans receivable. Accordingly, actual results could differ from these and other estimates thereby impacting future financial statements. Disclosure of the nature and circumstances giving rise to the uncertainty, have been disclosed in the relevant notes in the financial statements (See Notes 3, 4 and 8).

(e) Non-Financial Assets

Non-financial assets are limited to tangible capital assets and prepaid expenses.

(f) Cash

Cash consists of bank balances. Interest is earned on bank balances as part of funds managed by the Government of Alberta and is included in investment income.

(g) Loans Receivable and Allowances for Doubtful Accounts and for Losses

Loans receivable are recorded at cost or amortized cost less any amount for provision for credit losses. Amounts included in the cost of loan receivable include principal not due, arrears of principal and interest, accrued interest and capitalized other costs.

The Corporation records valuation allowances to reduce the cost of impaired loans to their net realizable value. A loan is classified as impaired when collection of principal and interest is no longer reasonably assured. Two types of allowances are established for loans receivable.

Specific allowance – a specific allowance is established after a loan-by-loan review of accounts meeting prescribed criteria indicative of a potential deterioration in the credit quality of debt. The specific allowance for each loan is determined as the difference between the loan principal amount outstanding and the discounted net present value of the related security net of the cost of realization. Changes in net realizable value of security subsequent to the recording of the initial allowance are adjusted through the specific allowance.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(g) Loans Receivable and Allowances for Doubtful Accounts and for Losses (continued)

General allowance – two types of general allowance are recorded. The first type is for estimated probable losses relating to deterioration in the full recoverability of individual loan accounts which have not yet met management's criteria for setting up a specific allowance at the Statement of Financial Position date. A methodology is applied to determine the Corporation's risk exposure to probable losses on individual loan accounts not subject to a specific allowance. The second type is for the aggregate amount owing for individual loans under a specific program or industry sector or a geographical area. In determining the allowance, management considers economic and market conditions and uncertainties affecting recoverability of such loans.

Loans are written off against the related allowance for doubtful accounts and for losses if there is no realistic prospect of future recovery. Any recovery of amounts previously written off is recognized on receipt of proceeds.

(h) Concessionary Loans and Loan Discounts

A loan is considered to have concessionary terms when at inception of the loan, the net present value of expected future cash flows is less than present book value. Book values of concessionary loans are reduced to their net present values by loan discounts expensed in the year in which loans are disbursed and amortized to interest revenue over the period of the concessionary term in proportion to loan repayments received.

(i) Investments

Investments are carried at cost or amortized cost unless there is an other than temporary decline in the value of the investments; then the investments are written down to recognize the loss. Premiums and discounts on investments are amortized to investment income using the effective interest rate method over the period to maturity of the related investment. Gains and losses realized on disposal of investments are included in investment income.

(j) Borrowing from Government of Alberta

Borrowing is carried at amortized cost. Premiums and discounts on borrowing are amortized to interest expense using the effective yield method over the period to maturity.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

(dollars in thousands)

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(k) Tangible Capital Assets including Capital Leases

Tangible capital assets of the Corporation are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. An asset acquired, other than computer software, with a life of more than one year and a cost of $5 or more is capitalized. Computer software acquired from external sources at a cost of $100 or more and software developed by the Corporation costing $500 or more are capitalized.

Leases that, from the point of view of the lessee, transfer substantially all the benefits and risks incidental to the ownership of the asset to the Corporation are considered capital leases. These are accounted for as an asset and an obligation. Capital lease obligations are recorded at the present value of the minimum lease payments excluding executory costs. The discount rate used to determine the present value of the lease payments is the Corporations incremental borrowing rate.

Tangible capital assets are written down when conditions indicate that they no longer contribute to AFSC's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. The net write-downs are accounted for as expenses in the Statement of Operations.

(l) AgriStability, AgriInvest and AgriRecovery Program

Payments under the programs to participants, administration expenses and corresponding contributions from the Governments of Canada and Alberta are recorded at 100% for AgriStability and AgriRecovery programs because the programs are delivered by the Corporation and at 40% for AgriInvest program because the program is delivered by Agriculture and Agri-Food Canada.

(m) Reinsurance

The Corporation carries reinsurance to cover AgriInsurance risks through two levels of government. Two crop reinsurance funds were established. On behalf of the Province, the Corporation administers the provincial fund called the Crop Reinsurance Fund of Alberta. The Government of Canada holds the federal fund called the Crop Reinsurance Fund of Canada for Alberta. The Crop Reinsurance Fund of Alberta is included as part of the AgriInsurance net assets of the Corporation. Contributions to and withdrawals from the Funds are made in accordance with terms and conditions of the agreement between the Governments of Canada and Alberta (see Note 16).

In addition, the Corporation carries reinsurance through private reinsurance companies for AgriInsurance and Hail insurance programs. Amounts recoverable from private reinsurers on premiums and indemnities are recorded in Accounts receivable.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(m) Reinsurance (continued)
Reinsurance recoveries are reported gross; they are included in fees and other revenue. Reinsurance expenses are reported at gross amounts and are separately disclosed in Schedule 1.

(n) AgriInsurance Net Assets Balance Restriction

In accordance with the Federal/Provincial Agricultural Policy Framework Implementation Agreement, amounts in the AgriInsurance net assets are restricted for AgriInsurance purposes only.

(o) Pensions

The Corporation participates in multi-employer pension plans with related government entities. Pension costs included in these statements are comprised of the cost of employer contributions for the current year service of employees.

(p) Transactions with Related Parties

The Government of Alberta significantly influences the programs delivered by the Corporation and is a major contributor to the funding of the programs. Therefore, the Government is considered a related party. All related party transactions with the Government of Alberta have been recorded at the exchange amount which is the consideration paid or received as agreed to by the related party (see Note 15).

(q) PS3260 Liability for Contaminated Sites

In June 2010, the Public Sector Accounting Board issued this accounting standard effective for fiscal years starting on or after April 1, 2014. Contaminated sites are a result of contamination being introduced into air, soil, water, or sediment of a chemical, organic, or radioactive material, or live organism that exceeds an environmental standard. The Corporation early adopted this accounting standard as of April 1, 2012. AFSC recognizes a liability for the sites no longer in use where the contamination has exceeded the relevant environmental standards and where AFSC has accepted responsibility. Included in Accounts Payable and Accrued Liabilities (Note 6) is a liability of $2,555 for the estimated remaining remediation (2015 $743).

(r) Change in Accounting Policy

Net debt model (with reclassification of comparatives) has been adopted for the presentation of financial statements. Net financial asset or net debt is measured as the difference between AFSC's financial assets and liabilities. A net financial asset balance indicates the extent of AFSC's dependence on government transfers and operating revenues to net assets resulting from settlement of its financial assets and liabilities. The effect of this change results in changing the presentation of the Statement of Financial Position and adding the Statement of Change in Net Financial Assets.

AGRICULTURE FINANCIAL SERVICES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2016
(dollars in thousands)

Note 3 Accounts Receivable

	2016	2015
AgriStability & Canadian Agricultural Income Stabilization (CAIS) programs:		
Overpayments	$ 9,488	$ 13,951
Administration fees	465	370
Premiums from insured persons		
AgriInsurance program	1,693	3,116
Livestock insurance program	757	2,537
Hail insurance program	366	294
Other	1,963	1,756
	14,732	22,024
Allowances for doubtful accounts		
At beginning of year	(14,088)	(19,618)
Decrease (increase) for this year	3,418	3,436
Write offs, net of recoveries	653	2,094
At end of year	(10,017)	(14,088)
	$ 4,715	$ 7,936

Included in the allowances for doubtful accounts is $9,488 (2015 $13,951) representing the amount of overpayments under AgriStability and CAIS programs in recognition of the Corporation's role as an agent for collection. The allowance for doubtful accounts is subject to measurement uncertainty as it is an estimate based on management's assessment of collectability of outstanding balance. Actual write-offs realized in future periods could be materially different from management's estimates.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

(dollars in thousands)

Note 4 Loans Receivable

Loans receivable are comprised of the following:

	2016			2015
	Farm	Commercial	Total	Total
Performing loans - non concessionary	$ 1,748,156	$ 383,849	$ 2,132,005	$ 2,031,443
Performing loans - concessionary	3,996	-	3,996	5,422
Impaired loans	3,315	38,220	41,535	40,628
	1,755,467	422,069	2,177,536	2,077,493
Accrued interest	24,579	1,904	26,483	26,943
Loan discount	(51)	-	(51)	(70)
	1,779,995	423,973	2,203,968	2,104,366
Allowances	(9,748)	(32,754)	(42,502)	(36,744)
Net carrying value	$ 1,770,247	$ 391,219	$ 2,161,466	$ 2,067,622

All loans have fixed interest rates for the term of loan or renewal period.

Loans have blended repayments during the term. Loans can be repaid in full or part during the term without any penalty.

	Farm	Commercial	2016	2015
At beginning of year	$ 10,012	$ 26,732	$ 36,744	$ 32,591
Increase (decrease) for the year	(234)	8,491	8,257	7,657
Write-offs	(30)	(2,469)	(2,499)	(3,504)
At end of year	$ 9,748	$ 32,754	$ 42,502	$ 36,744
Specific allowance	$ 689	$ 25,387	$ 26,076	$ 24,800
General allowance	9,059	7,367	16,426	11,944
	$ 9,748	$ 32,754	$ 42,502	$ 36,744

Allowances for doubtful accounts for loans are as follows:
Valuation allowances of loans receivable are based on management's best estimate. Actual losses realized may vary significantly from management's estimate.

Loans receivable are secured by tangible assets consisting predominantly of land followed by buildings, equipment and other assets. The estimated values of such assets are $4,289,439 (2015 $4,035,046).

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

(dollars in thousands)

Note 4 Loans Receivable (continued)

The composition of the Loans receivable balance by range of effective annual interest rates is as follows:

Effective annual Interest Rate	2016	2015
Less than or equal to 2%	$ 125,313	$ 70,554
2.01% to 3.00%	378,294	280,945
3.01% to 4.00%	631,527	612,361
4.01% to 5.00%	484,461	441,625
5.01% to 6.00%	340,313	390,779
6.01% to 7.00%	185,986	233,810
7.01% to 8.00%	24,710	38,131
Over 8%	6,881	9,218
	2,177,485	2,077,423
Accrued interest	26,483	26,943
Allowance for doubtful accounts	(42,502)	(36,744)
	$ 2,161,466	$ 2,067,622
Weighted average annual interest rate	4.09%	4.34%

Note 5 Investments

	2016	2015
Bonds and debentures:		
Government of Canada, direct and guaranteed	$ 822,501	$ 938,215
Other provincial, direct and guaranteed	200,711	79,991
	1,023,212	1,018,206
Corporate securities:		
Asset backed securities, AAA rated	494,797	461,863
Senior bank notes	361,486	342,784
	856,283	804,647
	1,879,495	1,822,853
Accrued interest	11,921	11,842
	$ 1,891,416	$ 1,834,695

The fair value of investments at March 31, 2016 is $1,902,350 (2015 $1,861,743). Fair value is based on quoted market prices excluding accrued interest.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

(dollars in thousands)

Note 5 Investments (continued)

The following provides a breakdown of the investment portfolio by term to maturity.

	Term to Maturity [1]				
	Within 1 Year	1 to 5 Years	6 to 10 Years	2016	2015
Bonds and debentures	$ 3,332	$ 969,552	$ 50,328	$1,023,212	$1,018,206
Yield [2]	0.63%	0.86%	1.67%	0.90%	0.83%
Corporate Securities	174,234	671,824	10,225	856,283	804,647
Yield [2]	1.19%	1.62%	1.93%	1.54%	1.33%
	177,566	1,641,376	60,553	1,879,495	1,822,853
Accrued interest	1,448	10,025	448	11,921	11,842
	$ 179,014	$1,651,401	$ 61,001	$1,891,416	$1,834,695

[1] Term to maturity classifications are based on contractual maturity date of the security.

[2] Yield represents the rate which discounts future cash receipts to the carrying amount.

Note 6 Accounts Payable and Accrued Liabilities

	2016	2015
Supplies and services	$ 9,561	$ 6,589
Salaries, wages and employee benefits	6,137	7,087
Reinsurance Premiums to Government of Canada	19	63
Other	962	648
	$ 16,679	$ 14,387

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

(dollars in thousands)

Note 7 Due to Other Provincial Governments

Due to provincial governments represents amounts collected from and paid to other provincial governments relating to the Western Livestock Price Insurance Program which was implemented in April 2014. The program provides producers with protection against an unexpected drop in prices on cattle and hogs. The Corporation entered into an agreement with the other provincial governments to deliver this program to producers in British Columbia, Saskatchewan and Manitoba. Any premiums, indemnities or expenses collected on behalf of producers outside of Alberta are recorded as Due to provincial governments in the financial statements. The Corporation's Statement of Operations includes premiums, indemnities and administration expenses for Alberta producers only.

Breakdown of the amounts owing is as follows:

	2016	2015
Premiums collected	$ 8,096	$ 5,508
Indemnities paid	(5,756)	-
Administration costs incurred	(820)	(772)
Reinsurance	(914)	-
	$ 606	$ 4,736

Note 8 Indemnities Payable

	2016 (Note 2(l))	2015 (Note 2(l))
AgriStability (previously CAIS program), AgriInvest, AgriRecovery and related programs		
Current claim year	$ 124,365	$ 112,401
Prior claim years	24,599	46,807
	148,964	159,208
AgriInsurance	14,112	11,966
Wildlife compensation	678	758
Hail insurance	797	552
Livestock price insurance	2,984	-
	$ 167,535	$ 172,484

Note 8 Indemnities Payable (continued)

Estimated indemnities payable of $167,535 and corresponding contributions and receivables from the Governments of Canada and Alberta are subject to measurement uncertainty because they could change materially in the future, if factors and assumptions considered by management in establishing the estimates were to change significantly.

Estimated indemnities for the current claim year for the AgriStability and AgriInvest programs are based on a variety of factors such as number of participants, estimated reference margins, estimated claim year margins based on projected forecast commodity prices, crop yields, inventory changes and forecast changes in eligible income and expenses on an aggregate basis for different types of agriculture industry. Based on the above key assumptions and using a statistical model for projections estimated indemnities for the current year would be in the range of $110,136 to $144,300.

Estimated indemnities for prior claim years under AgriStability, AgriInvest and AgriRecovery programs are based on probable payments for claims not yet processed.

Estimated indemnities payable for the AgriInsurance program are based upon number of claims remaining to be paid and average claim payment amounts. The indemnities payable also includes claims deferred by producers. Based on that information the projected estimated indemnities would be in the range of $10,868 to $17,356.

Indemnities for Livestock Price Insurance Program are based on estimated payments using forward contract prices applicable to policies sold during the fiscal year with settlement dates beyond the end of fiscal year.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

(dollars in thousands)

Note 9 Borrowing from Government of Alberta

All borrowings from the Government of Alberta bear interest rates which are fixed for the term of the borrowing. Repayment of principal is on maturity with the exception of a small number of borrowings which require blended repayments during the term.

The composition of outstanding borrowing from the Government of Alberta by range of effective annual interest rate is as follows:

	2016	2015
Effective annual Interest Rate		
Less than or equal to 2%	$ 345,000	$ 170,000
2.01% to 3.00%	483,000	483,000
3.01% to 4.00%	809,238	809,238
4.01% to 5.00%	460,751	489,751
5.01% to 6.00%	33,513	55,155
	2,131,502	2,007,144
Accrued interest	14,503	14,431
Unamortized premium	357	2,351
	$ 2,146,362	$ 2,023,926
Weighted average annual interest rate	3.28%	3.51%

Principal repayments due in each of the next five years and thereafter are as follows:

Year ending March 31,	2017	$ 235,506
	2018	68,780
	2019	186,092
	2020	293,109
	2021	225,000
	Thereafter	1,123,015
		$ 2,131,502

The estimated fair value of borrowings as at March 31, 2016 is $2,300,316 (2015 $2,232,195). Fair value is an approximation of market value to the holder.

Note 10 Deferred Revenue

	2016	2015
Unearned revenue	$ 6,932	$ 4,349
Spent deferred capital contributions	19,002	18,657
	$ 25,934	$ 23,006

Unearned revenue

	2016				2015
	Government of Canada	Non-government	Government of Alberta	Total	Total
Balance at beginning of year	$ -	$ 4,349	$ -	$ 4,349	$ 5,732
Received during year	-	6,932	-	6,932	4,349
Less amounts recognized	-	(4,349)	-	(4,349)	(5,732)
Balance at end of year	$ -	$ 6,932	$ -	$ 6,932	$ 4,349

Spent deferred capital contributions

	2016				2015
	Government of Canada	Non-government	Government of Alberta	Total	Total
Balance at beginning of year	$ 10,670	$ 873	$ 7,114	$ 18,657	$ 18,246
Transferred capital assets received	4,410	-	2,940	7,350	4,182
Less amounts recognized as revenue	(4,145)	(97)	(2,763)	(7,005)	(3,771)
Balance at end of year	$ 10,935	$ 776	$ 7,291	$ 19,002	$ 18,657

Unearned revenue represents premiums received from producers for AgriInsurance programs, fees collected for the AgriStability program relating to the next fiscal year and amounts collected in advance from other provincial governments for licensing fees for the Western Livestock Price Insurance Program. Spent deferred capital contributions represent contributions received from the federal and provincial governments that are restricted for the acquisition of tangible capital assets.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

(dollars in thousands)

Note 11 Tangible Capital Assets

	Land	Building	Furniture and Fixtures	Computer Equipment and Software	2016	2015
Estimated Useful Life	Indefinite	25 - 40 years	5 - 10 years	2 - 10 years		
Cost						
At beginning of year	$ 1,827	$ 9,987	$ 11,484	$ 98,579	$ 121,877	$ 116,388
Additions	-	-	815	6,260	7,075	5,876
Disposals	-	-	(71)	(1,412)	(1,483)	(387)
	1,827	9,987	12,228	103,427	127,469	121,877
Accumulated amortization						
At beginning of year	-	5,060	6,810	68,393	80,263	70,949
Amortization expense	-	362	1,031	8,608	10,001	9,650
Disposals	-	-	(49)	(1,412)	(1,461)	(336)
	-	5,422	7,792	75,589	88,803	80,263
Net book value at March 31, 2016	$ 1,827	$ 4,565	$ 4,436	$ 27,838	$ 38,666	
Net book value at March 31, 2015	$ 1,827	$ 4,927	$ 4,674	$ 30,186		$ 41,614

Computer equipment and software costs include $5,998 (2015 $6,120) of costs incurred that are not amortized because they are still in the development stage.

Note 12 Pensions

The Corporation participates in the multi-employer Alberta Management Employees Pension Plan and the Alberta Public Service Pension Plan. The Corporation also participates in the multi-employer Supplementary Retirement Plan for Alberta Public Service Managers.

AFSC does not have sufficient plan information to follow the standards for defined benefit accounting, and therefore, follows the standards for defined contribution accounting. Accordingly, pension expense recorded for the plans is comprised of employer contributions to the plan that are required for its employees during the year, which are calculated based on actuarially pre-determined amounts that are expected to provide the plan's future benefits. The expense for these pension plans is equivalent to the annual contributions of $6,646 for the year ended March 31, 2016 (2015 $6,407).

At December 31, 2015, the Alberta Management Employees Pension Plan reported a surplus of $299,051 (2014 surplus $75,805), the Alberta Public Service Pension Plan reported a deficiency of $133,188 (2014 deficiency $803,299) and the Supplementary Retirement Plan for Public Service Managers reported a deficiency of $16,305 (2014 deficiency $17,203). The Corporation's share of these pension plans' deficiency is not determinable. The Corporation is not responsible for future funding of the plan deficits other than through contribution increases.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

(dollars in thousands)

Note 13 Contingencies, Contractual Obligations and Commitments

Contingent Liability

	2016	2015
Loan guarantees	$ 27,465	$ 12,972
Less allowances for losses	(150)	(150)
Total contingencies	$ 27,315	$ 12,822

Included in loan guarantees is $11,922 (2015 $11,779) guaranteed under the Alberta Flood Recovery Loan Guarantee Program (AFRLGP), which was established to assist Alberta businesses directly impacted by the June 2013 flood in southern Alberta. Under the AFRLGP, the Corporation has entered into agreements with financial institutions guaranteeing repayment of up to 75% of loans issued under this program.

The Corporation has not been named in any legal matters of which the outcome is not determinable (2015 nil).

Contractual Obligations

	2016	2015
Reinsurance	25,420	29,286
Operating leases	19,816	7,866
Other contracts	619	1,355
Total contractual obligations	$ 45,855	$ 38,507

The operating lease contractual obligations are for accommodations with terms up to thirteen years.

Commitments

	2016	2015
Approved, undisbursed loans	$ 208,362	$ 170,249

Note 14 Financial Instruments and Financial Risk Management

Financial instruments comprise the majority of AFSC's assets and liabilities. AFSC is exposed to credit, interest and liquidity risks in respect to its use of financial instruments.

Credit Risk

Credit risk is the possibility that a debtor will not pay amounts owing to AFSC, resulting in a loss to the Corporation.

AFSC's maximum possible exposure to credit risk is as follows:

	2016	2015
Loans receivable	$ 2,161,466	$ 2,067,622
Investments	1,891,416	1,834,695
Due from Government of Canada	194,275	155,677
Due from Government of Alberta	43,784	66,250
Accounts receivable	4,715	7,936
Loan guarantees	27,465	12,972
Total commitments	$ 4,323,121	$ 4,145,152

Loans receivable - Security requirements for a loan or guarantee depend on the risk involved in each individual operation. Adequate security is required for new and emerging businesses as well as for enterprises needing specialized or customized equipment. To mitigate credit risk, lending staff monitor loan accounts continually to ensure prompt response to any financial difficulties customers may encounter.

Investments - AFSC invests surplus funds generated by Production and Hail Insurance operations. To decrease the risk of loss of investment, the majority of funds are invested in bonds of federal or provincial governments or securities of corporations that have superior credit ratings. The investments are managed by Alberta Investment Management Corporation, an Alberta Crown Corporation. AFSC also invests in asset-backed securities (AAA rating) and senior bank notes (A rating and higher). Both of these investments consist of securities with relatively low levels of risk.

Due from the Government of Alberta and the Government of Canada – AFSC is not exposed to significant credit risk as payment in full is typically collected when due.

Accounts receivable - Payments to some CAIS/AgriStability participants resulted in overpayments when information provided to AFSC by participants proved to be incorrect or not supported. This creates a risk of potential non-repayment of the overpayments. The Corporation may set off overpayments against any payments to customers.

AFSC provides insurance coverage on crops, effective at the acceptance of the customer's application for insurance, with or without payment of premiums in full. Non-collection of outstanding insurance premiums is a risk. To minimize this risk, a discount is offered for early payment of insurance premiums and arrangements made for a payment schedule for all customers not taking advantage of the discount. Insurance staff closely monitors outstanding premiums and promptly take collection action when required.

Note 14 Financial Instruments and Financial Risk Management (continued)

The following breakdown of the Loans receivable provides an indication of the concentration of credit risk in the loan portfolio. Further information is provided throughout these statements which disclose other concentrations of credit risk.

	2016		2015	
	Dollar	Percentage	Dollar	Percentage
Loans receivable by individual sector:				
Grain and Oilseeds	$ 1,103,696	51%	$ 1,044,243	50%
Cattle	568,043	26%	514,474	25%
Accommodations and Other Services	132,867	6%	120,731	6%
Manufacturing	101,996	5%	98,280	5%
Other Livestock	81,430	4%	74,220	4%
Trade - Retail and Wholesale	50,415	2%	54,358	3%
Commercial and Industrial	37,016	2%	41,661	2%
Transportation and Warehousing	26,718	1%	36,755	2%
Professional Services	24,632	1%	30,110	1%
Other	77,155	4%	89,534	4%
Allowance	(42,502)	-2%	(36,744)	-2%
	$ 2,161,466	100%	$ 2,067,622	100%

Interest Rate Risk

Interest rate risk is the impact future changes in interest rates have on cash flows and fair values of financial assets and liabilities. AFSC's interest rate exposure relates to investments, loans receivable, and borrowing from the Government of Alberta.

Investments – Interest rate risk on investments is mitigated by AFSC's Investment Policy for surplus funds. The investment policy is approved by the Board of Directors and compliance with the policy is reported to the Board Audit Committee at least twice a year. Duration of investments are set to match management's best estimate of when investments may be needed to be liquidated to meet financial commitments.

Loans receivables – Loans receivable balances consist of loans with interest rates fixed either until maturity date or for a term with a renewable option. The Corporation allows its customers to prepay their loans without any prepayment penalties. In the normal course of business, loan customers prepay their loans in part or in full prior to the contractual maturity date. Impact of interest rate changes on performance of loan portfolio and cash flows could be significant as a result of changes in market interest rates and borrower's repayment preferences.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

(dollars in thousands)

Note 14 Financial Instruments and Financial Risk Management (continued)

Borrowing from the Government of Alberta - The interest rates on borrowings are fixed until maturity. For a vast majority of borrowings, principal repayments are due in full on maturity date with no prepayment option. The Government of Alberta provides an annual contribution to the Corporation that includes an amount to bridge the gap between interest revenue from the loan portfolio and interest on borrowings annually through the budget process. Cash inflows are matched with outflows through additional borrowing as required from the Government of Alberta. Management has assessed that the interest rate risk related to borrowing is not significant.

The following position of the Corporation's loan portfolio and borrowing provides additional information on interest rate risk.

	Scheduled Repayment[1]				Not[2] Interest Rate Sensitive	2016	2015
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years		Total	Total
Loan balances	$ 208,218	$ 638,322	$ 603,092	$ 723,476	$ (11,642)	$ 2,161,466	$ 2,067,622
Yield	3.86%	3.95%	3.99%	3.49%		3.88%	3.97%
Borrowing from Government of Alberta	$ 235,507	$ 772,980	$ 757,294	$ 365,721	$ 14,860	$ 2,146,362	$ 2,023,926
Yield[3]	3.49%	3.46%	3.37%	3.11%		3.42%	3.57%
Net gap	$ (27,289)	$ (134,658)	$ (154,202)	$ 357,755	$ (26,502)	$ 15,104	$ 43,696

(1) For loan balances, scheduled repayments of principal are based on amortization of loans for the remaining term up to maturity at applicable interest rates. For borrowing from the Government of Alberta, scheduled repayments reflect contractual repayment of principal.

(2) Includes specific and general allowance, accrued interest and unamortized loan discount.

(3) Yield represents the rate which discounts future cash receipts to the carrying amount.

Liquidity Risk

Liquidity risk relates to AFSC's ability to access sufficient funds to meet its financial commitments.

AFSC's primary liquidity risk relates to its liability for insurance claims. Insurance claims are funded firstly with current year premiums collected, which normally exceeds cash requirements. In addition, the investment portfolio of surplus funds in insurance operations is structured in such a way that a portion of the portfolio is accessible at short notice to fund claim payments. The Corporation also carries private sector reinsurance for AgriInsurance and Hail Insurance providing significant protection against catastrophic losses. If all of the above are exhausted, the AgriInsurance program has a reinsurance agreement with the Government of Canada and the Government of Alberta to provide additional funding for claim payments. Additionally, the Corporation has access to advances from the Government of Alberta to meet short-term cash flow needs.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

(dollars in thousands)

Note 15 Related Party Transactions

Related parties are those entities consolidated or accounted for on the modified equity basis in the Government of Alberta's financial statements. Related parties also include management in the Corporation.

The Corporation had the following transactions with related parties recorded on the Statement of Operations and the Statement of Financial Position at the amount of consideration agreed upon between the related parties:

	2016	2015
Revenues:		
Grants	$ 278,535	$ 286,417
Other	-	3,874
	$ 278,535	$ 290,291
Expenses:		
Accommodation	$ 661	$ 742
Other services	2,372	1,840
Interest	69,214	69,761
	$ 72,247	$ 72,343
Payable to:		
Ministry of Agriculture and Forestry	$ 520	$ 514
Ministry of Treasury Board and Finance	2,096,263	2,023,926
Ministry of Service Alberta	1	7
Receivable from:		
Ministry of Agriculture and Forestry	46,563	66,250
Deferred Revenue from:		
Ministry of Agriculture and Forestry	7,291	7,114
	$ 2,150,638	$ 2,097,811

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

(dollars in thousands)

Note 16 Crop Reinsurance Funds

The contributions, withdrawals and accumulated net asset positions of the Crop Reinsurance Fund of Alberta and the Crop Reinsurance Fund of Canada for Alberta are as follows (see Note 2(m)):

	AgriInsurance Reinsurance Fund of Alberta		AgriInsurance Reinsurance Fund of Canada for Alberta	
	2016	2015	2016	2015
Opening net assets	$ 33,641	$ 33,641	$ 34,530	$ 34,530
Contributions	-	-	-	-
Closing net assets	$ 33,641	$ 33,641	$ 34,530	$ 34,530

The net assets balance in the Crop Reinsurance Fund of Alberta is consolidated in the AgriInsurance Fund in Schedule 1.

Note 17 Budget

The budget reported in the Statement of Operations was included in the 2015/16 Government Estimates.

Note 18 Comparative Figures

The 2015 figures have been reclassified where necessary to conform to 2016 presentation.

AGRICULTURE FINANCIAL SERVICES CORPORATION
SCHEDULE OF OPERATIONS
YEAR ENDED MARCH 31, 2016
(dollars in thousands)

	2016	2015	2016	2015	2016
	AgriInsurance Note 2(n)	AgriInsurance Note 2(n)	Agriculture Income Support	Agriculture Income Support	Lending
Revenues:					
Premiums from insured persons	$ 247,760	$ 231,168	$ -	$ -	$ -
Interest	485	563	(234)	564	88,003
Contribution from Government of Alberta	214,921	203,539	46,444	64,804	12,851
Contribution from Government of Canada	187,487	183,432	28,515	56,812	-
Investment income	43,554	42,234	241	371	350
Fees and other income	150	(35)	10,464	10,715	3,513
	694,357	660,901	85,430	133,266	104,717
Expenses:					
Indemnities	485,631	367,560	71,893	117,158	-
Salaries, wages and employee benefits	26,927	25,742	11,839	13,380	20,341
Supplies and services	11,059	12,666	4,093	5,027	6,125
Amortization of tangible capital assets	3,246	2,872	2,669	2,593	2,739
Interest	-	-	-	-	69,690
Reinsurance	23,887	23,031	-	-	-
Allowance for doubtful accounts and for losses (Note 3 & 4)	333	(3)	(3,825)	(3,517)	8,257
	551,083	431,868	86,669	134,641	107,152
Net operating results	143,274	229,033	(1,239)	(1,375)	(2,435)
Net assets at beginning of year	2,030,866	1,801,833	1,882	3,257	84,052
Net assets at end of year	$ 2,174,140	$ 2,030,866	$ 643	$ 1,882	$ 81,617

AGRICULTURE FINANCIAL SERVICES CORPORATION
SCHEDULE OF OPERATIONS
YEAR ENDED MARCH 31, 2016
(dollars in thousands)

Schedule 1

2015	2016	2015	2016	2015	2016	2015	2016	2015
Lending	Hail Insurance	Hail Insurance	Livestock Insurance	Livestock Insurance	Wildlife Damage Compensation	Wildlife Damage Compensation	Total	Total
$ -	$ 44,574	$ 55,316	$ 6,556	$ 20,730	$ -	$ -	$ 298,890	$ 307,214
87,100	98	111	46	72	-	-	88,398	88,410
18,297	-	-	784	1,521	3,535	2,130	278,535	290,291
-	-	-	1,169	1,828	3,339	2,060	220,510	244,132
728	127	231	189	135	(7)	(4)	44,454	43,695
3,202	352	2,021	713	576	58	56	15,250	16,535
109,327	45,151	57,679	9,457	24,862	6,925	4,242	946,037	990,277
-	32,623	61,237	8,423	(976)	6,412	3,567	604,982	548,546
18,701	995	1,176	1,337	2,065	261	337	61,700	61,401
5,806	794	1,130	510	1,041	126	154	22,707	25,824
2,767	708	752	613	630	26	36	10,001	9,650
69,886	-	-	-	-	-	-	69,690	69,886
-	1,644	2,224	1,009	1,700	-	-	26,540	26,955
7,657	50	(2)	24	(4)	-	90	4,839	4,221
104,817	36,814	66,517	11,916	4,456	6,825	4,184	800,459	746,483
4,510	8,337	(8,838)	(2,459)	20,406	100	58	145,578	243,794
79,542	11,733	20,571	26,415	6,009	1,299	1,241	2,156,247	1,912,453
$ 84,052	$ 20,070	$ 11,733	$ 23,956	$ 26,415	$ 1,399	$ 1,299	$ 2,301,825	$ 2,156,247

Schedule 2

AGRICULTURE FINANCIAL SERVICES CORPORATION

SCHEDULE OF SALARIES AND BENEFITS

YEAR ENDED MARCH 31, 2016

(dollars in thousands)

	2016				2015
	Base Salary[1]	Other Cash Benefits[2]	Other Non-cash Benefits[3]	Total	Total
Chairman of Board	$ 49	$ -	$ -	$ 49	$ 51
Board members[4]	137	-	-	137	174
President and Managing Director	518	50	130	698	632
Executive Members					
Senior Vice-President, Corporate Services[5]	-	-	-	-	286
Chief Operating Officer	252	26	68	346	331
Vice-President, Innovation & Product Development	252	19	66	337	315
Chief Financial Officer	220	9	60	289	245
Chief Information Officer	174	9	50	233	294
Chief Communication and Marketing Officer	153	8	43	204	174
Vice-President, Human & Corporate Services[6]	88	42	19	149	323
Senior Manager, Human Resources[7]	97	-	28	125	-

(1) Base salaries are fees for Chair and Board members and base pay for employees.

(2) Other cash benefits include vacation payments and lump sum payments. There were no bonuses paid during the year.

(3) Other non-cash benefits include employer's share of all employee benefits and contributions or payments made on behalf of employees, including health care, dental, medical and vision care, group life insurance benefits, pension and supplementary retirement plan, employment insurance, accidental death/dismemberment and long-term disability insurance, workers' compensation and professional memberships. No amount is included in other non-cash benefits for an automobile provided to the President and Managing Director.

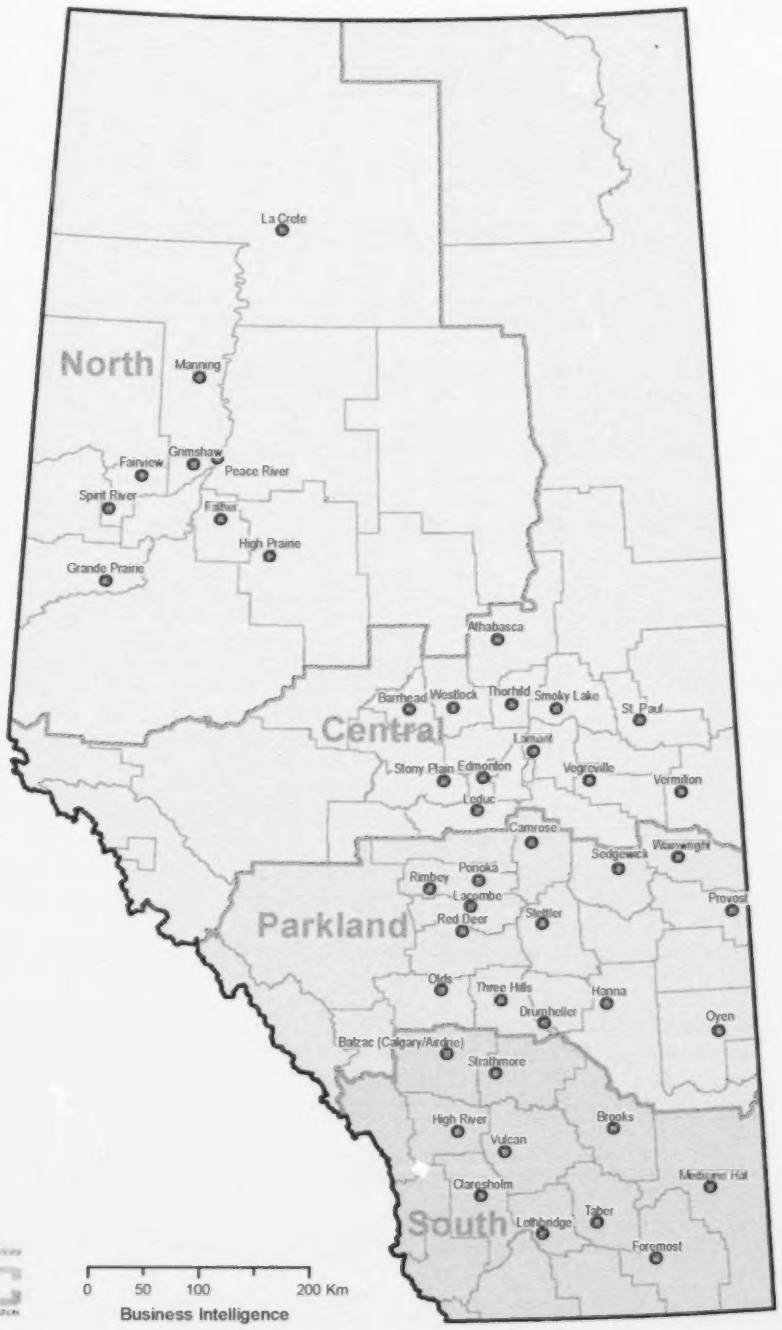
(4) The amounts relate to five Board members during 2015/16 (eleven in 2014/15).

(5) Position was for seven (7) months in 2014/15.

(6) Position was for three and one half months (3.5).

(7) Position commenced on July 20, 2015.

AFSC OFFICES (AS OF MARCH 31, 2016)



AFSC OFFICE LOCATIONS (AS OF MARCH 31, 2016)

AIRDRIE

97 East Lake Ramp NE
Airdrie AB
T4A 0C3
Insurance Phone: 403-948-8543
Lending Phone: 403-948-8529
Fax: 403-948-1418

ATHABASCA

Provincial Building
100 - 4903 - 50th Street
Athabasca AB
T9S 1E2
Insurance Phone: 780-675-4007
Lending Phone: 780-675-8160
Fax: 780-675-3827

BARRHEAD

4924 - 50th Avenue
Barrhead AB
T7N 1A4
Insurance Phone: 780-674-8782
Lending Phone: 780-674-8785
Fax: 780-674-8787

BROOKS

Provincial Building
220 - 4th Avenue W
Brooks AB
T1R 0G1
Insurance Phone: 403-362-1262
Lending Phone: 403-362-1216
Fax: 403-362-8078

CALGARY

Deerfoot Atrium North
Suite 150 6815 - 8th Street NE
Calgary AB
T2E 7H7
Phone: 403-297-6281
Fax: 403-297-8461

CAMROSE

PO Box 5000 Stn M
4910 - 52nd Street
Camrose AB
T4V 2V4
AgriStability Analyst:
Phone: 780-679-1319
Fax: 780-679-1758
Insurance:
Phone: 780-679-1739
Fax: 780-679-1758
Lending:
Phone: 780-679-1229
Fax: 780-679-1300

CLARESHOLM

Provincial Building
109 - 46th Avenue W
PO Box 1227
Claresholm AB
T0L 0T0
Insurance Phone: 403-625-3534
Lending Phone: 403-625-1462
Fax: 403-625-2862

DRUMHELLER

111 Railway Avenue W
Drumheller AB
T0J 0Y0
Phone: 403-823 3042
Fax: 403-823-5083

EDMONTON

Room 100
J.G. O'Donoghue Building
7000-113 Street
Edmonton AB
T6H 5T6
Phone: 780-427-2140
Fax: 780-415-1218

EDSON

PO Box 11
Provincial Building
111 54 Street
Edson AB
T7E 1T2
Phone: 780-723-8233
Fax: 780-723-8575

FAIRVIEW

PO Box 1188
Provincial Building
10209 - 109th Street
Fairview AB
T0H 1L0
AgriStability Analyst Phone:
780-835-2295
Insurance Phone: 780-835-2703
Lending Phone: 780-835-4975
Fax: 780-835-3994

FALHER

PO Box 658
701 Main Street
Falher AB
T0H 1M0
Insurance & Lending:
Phone: 780-837-2521
Fax: 780-837-8223

FOREMOST

PO Box 37
218 Main Street
Foremost AB
T0K 0X0
Phone: 403-867-3666
Fax: 403-867-2038

GRANDE PRAIRIE

102 - 10625 Westside Drive
Grande Prairie AB
T8V 8E6
AgriStability Analyst Phone:
(780) 538-5234
Lending Phone: 780-538-5220
Insurance Phone 780-538-5355
Fax: 780-532-2560

GRIMSHAW

PO Box 802
5306 - 50th Street
Grimshaw AB
T0H 1W0
Insurance & Lending:
Phone: 780-332-4494
Fax: 780-332-1044

HANNA

PO Box 7 (Insurance)
PO Box 349 (Lending)
Provincial Building
401 Centre Street
Hanna AB
T0J 1P0
Insurance Phone: 403-854-5525
Lending Phone: 403-854-5505
Fax: 403-854-2590

HIGH PRAIRIE

Provincial Building
PO Box 1259
5226 - 53rd Avenue
High Prairie AB
T0G 1E0
Phone: 780-523-6507
Fax: 780-523-6569

HIGH RIVER

PO Box 5208
129 - 4th Avenue SW
High River AB
T1V 1M4
Insurance & Lending:
Phone: 403-652-8313
Fax: 403-652-8306

LACOMBE CENTRAL OFFICE

5718 - 56 Avenue
Lacombe AB
T4L 1B1
Phone: 403-782-8200

LA CRETE

10105 94th Avenue
La Crete AB
T0H 2H0
Lending Phone: 780-928-2849

LAMONT

PO Box 487
5014 - 50th Avenue
Lamont AB
T0B 2R0
Insurance Phone: 780-895-2266
Lending Phone: 780-895-2459
Fax: 780-895-7755

LEDUC

6547 Sparrow Drive
Leduc AB
T9E 7C7
Insurance Phone: 780-986-4088
Lending Phone: 780-986-0999
Fax: 780-986-1085

LETHBRIDGE REGIONAL OFFICE

County of Lethbridge Building
200 - 905 - 4th Avenue S.
Lethbridge AB
T1J 0P4
AgriStability Analyst Phone:
403-382-4383
Insurance Phone: 403-381-5240
AgriStability & Insurance Fax:
403-382-4527
Lending Phone: 403-381-5102
Lending Fax: 403-381- 5178

MANNING

PO Box 147
116 - 4th Avenue SW
Manning AB
T0H 2M0
Phone: 780-836-3573
Fax: 780-836-2844

MEDICINE HAT

111 - 7 Strachan Bay SE
Medicine Hat AB
T1B 4Y2
AgriStability Analyst Phone:
403-488-4507
Insurance & AgriStability Fax:
(403) 488-4516
Insurance Phone 403-488-4509
Lending Phone: 403-488-4508
Lending Fax: 403-488-4518

OLDS

Provincial Building
101 - 5030 - 50th Street
Olds AB
T4H 1S1
AgriStability Analyst Phone:
403-556-4263
Insurance Phone: 403-556-4334
Lending Phone: 403-556-4222
Fax: 403-556-4255

OYEN

PO Box 426
201 Main Street
Oyen AB
T0J 2J0
Phone: 403-664-3677
Fax: 403-664-2687

PEACE RIVER

Bag 900 -23
9809 - 98th Avenue
Peace River AB
T8S 1J5
Insurance & Lending:
Phone: 780-624-6387
Fax: 780-624-6493

PONOKA

PO Box 4426
Provincial Building
250 - 5110 - 49th Avenue
Ponoka AB
T4J 1S1
Insurance Phone: 403-783-7071
Lending Phone: 403-783-7011
Fax: 403-783-7925

PROVOST

PO Box 716
Provincial Building
5419 - 44th Street
Provost AB
T0B 3S0
Insurance & Lending:
Phone: 780-753-2150
Fax: 780-753-2876

RED DEER REGIONAL OFFICE

Unit #1 - 7710 Gaetz Avenue
Red Deer AB
T4P 2A5
Insurance Phone: 403-340-5379
Insurance Fax: 403-340-7999
Lending Phone: 403-340-5326
Lending Fax: 403-340-7004

RIMBEY

PO Box 888
Provincial Building
5025 - 55th Street
Rimbey AB
T0C 2J0
Insurance & Lending:
Phone: 403-843-4516
Fax: 403-843-4150

SEDGEWICK

PO Box 266
4701 - 48th Avenue
Sedgewick AB
T0B 4C0
Phone: 780-384-3880
Fax: 780-384-2156

SMOKY LAKE

PO Box 602
Provincial Building
108 Wheatland Avenue
Smoky Lake AB
T0A 3C0
Phone: 780-656-3644
Fax: 780-656-3669

SPIRIT RIVER

Provincial Building
1st Floor 4602 - 50th Street
Spirit River AB
T0H 3G0
Insurance Phone: 780-864-3896
Lending Phone: 780-864-4244
Fax: 780-864-2529

ST. PAUL

5025 - 49th Avenue
Provincial Building
PO Box 406
St. Paul AB
T0A 3A4
Insurance Phone: 780-645-6221
Lending Phone: 780-645-6453
Fax: 780-645-2848

STETTLER

PO Box 1807 (Insurance)
Bag 600 (Lending)
5020 50th Street
Stettler AB
T0C 2L0
Insurance Phone: 403-740-4200
Lending Phone: 403-740-4209
Fax: 403-740-4210

STONY PLAIN

Provincial Building
4709 - 44th Avenue
Stony Plain AB
T7Z 1N4
AgriStability Analyst Phone:
780-968-4952
Insurance Phone: 780-963-0600
Lending Phone: 780-963-4720
Fax: 780-963-1251

STRATHMORE
(includes Blackfoot Reserve)

325 - 3rd Avenue
Strathmore AB
T1P 1B4
AgriStability Analyst Phone:
403-361-9637
Insurance Phone: 403-934-3616
Lending Phone: 403-934-5353
Fax: 403-934-5018

TABER

Provincial Building
5011 - 49th Avenue
PO Box 4
Taber AB
T1G 1V9
Insurance Phone: 403-223-7900
Lending Phone: 403-223-7920
Fax: 403-223-7985

THORHILD

County Administration Building
PO Box 400
801 - 1st Street
Thorhild AB
T0A 3J0
Phone: 780-398-3933
Fax: 780-398-2087

THREE HILLS

Provincial Building
160 - 3rd Avenue S
Three Hills AB
T0M 2A0
Insurance Phone: 403-443-8515
Lending Phone: 403-443-8510
Fax: 403-443-7519

VEGREVILLE

PO Box 1440
Vinet's Village Mall
Suite 138 4925 - 50th Avenue
Vegreville AB
T9C 1S6
AgriStability Analyst Phone:
780-603-2332 Ext. 2
Insurance & Lending Phone:
780-603-2332
Fax: 780-632-3385

VERMILION

PO Box 10
Provincial Building
4701 - 52nd Street
Vermilion AB
T9X 1J9
AgriStability Analyst Phone:
780-853-8238
Insurance & Lending Phone:
780-853-8266
Fax: 780-853-1982

VULCAN

PO Box 847
102 - 1st Street S
Vulcan AB
T0L 2B0
Insurance Phone: 403-485-2766
Lending Phone: 403-485-5141
Fax: 403-485-2947

WAINWRIGHT

Provincial Building
810 - 14th Avenue
Wainwright AB
T9W 1R2
Insurance Phone: 780-842-7547
Lending Phone: 780-842-7542
Fax: 780-842-4948

WESTLOCK

Provincial Building
2 - 10003 - 100th Street
Westlock AB
T7P 2E8
AgriStability Analyst Phone:
780-349-6253
Insurance Phone: 780-349-4544
Lending Phone: 780-349-4529
Fax: 780-349-5240